

THE TAINANBANG: THE RISE AND GROWTH OF A BANANA-BUNCH-SHAPED BUSINESS GROUP IN TAIWAN

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INTRODUCTION

THIS article focuses on a business group called the Tainanbang (best translated as the Tainan clique) and examines its growth pattern and organizational structure. The group consists of firms started and expanded by a band of entrepreneurs (*bang*),¹ who originated in Tainan area, hence the term Tainanbang.² By closely analyzing this business group, I shall illustrate structural features common to many Chinese business groups in Taiwan.

In recent years, several business groups have emerged in Taiwan, the most famous of which is Wang Yongqing's Formosa Plastics Group.³ In local parlance,

This article elaborates on the discussion of the Tainanbang in my Ph.D. dissertation [14]. An earlier Japanese version of this article was published in *Ajia keizai*, Vol. 33, No. 7 (July 1992). Field research in Taiwan from October 1986 to August 1989 was made possible by fellowships and grants-in-aid from the following institutions: The Joint Committee on Chinese Studies of the American Council of Learned Societies and the Social Science Research Council; Wenner-Gren Foundation for Anthropological Research; National Science Foundation of the United States of America; Urban Affairs Program of Michigan State University; and Sigma Xi, The Scientific Research Community. My return trip to Taiwan from May to June 1990 was financed in part by a grant-in-aid from Japan Securities Scholarship Foundation. I am grateful to all of them. I am also indebted to the staff of the Institute of Ethnology, Academia Sinica for sponsoring me as visiting research associate and for providing me with invaluable assistance. I would like to express my warmest gratitude to Dr. Bernard Gallin, Dr. Iwao Ishino, Dr. Harry Raulet, Dr. Richard Hill, and Dr. Rita Gallin of Michigan State University for their advice, critique, and encouragement.

¹ In this article, Chinese words are romanized in the *pinyin* style as in *bang*. Minnan terms are written in the Church romanization style. For the sake of simplicity, however, place names, personal names, and company names are transliterated only into *pinyin*, even though they are pronounced frequently in Minnan.

² Historically, the term *bang* meant a well-organized group of merchants who came from the same locality and engaged in the same trade. In contemporary Taiwan, however, the term *bang* is loosely applied to a circle of entrepreneurs from the same region even though they do not usually constitute a solid organization. In the case of the Tainanbang, the core of entrepreneurs who started the group all came from villages near Tainan city and were known for their solidarity. Even today, after more than half a century and over generational transitions, the group remains in the hands of its founding families and their close associates, and thus retains its regional character. The group, I believe, therefore deserves to be called a *bang*. I use the term Tainanbang in this article to convey the flavor of intimacy and fraternity among the group leaders.

³ Wang Yongqing once gained worldwide exposure by making the cover story of *Forbes* magazine [22, pp. 83-92]. For a more scholarly treatment, see [21, pp. 63-90].

these business groups are called *guanxiqiye*, or “related enterprises.” The originator of the term is not known, but in the 1970s the concept of *guanxiqiye* gained wide currency in both business and academic circles, thanks in large part to the publication of *Business Groups in Taiwan* (hereafter *BGT*), a biannual study of the 100 largest *guanxiqiye* by a private marketing research firm, China Credit Information Service (hereafter *CCIS*).⁴ Today, the term has become a sort of status symbol, and as a result many corporate groups refer to their organizations as *guanxiqiye* and openly acknowledge their member corporations by attaching the designation “*guanxiqiye*” to each member’s name and/or by using a common corporate logo.⁵

In general, *guanxiqiye* is a cluster of firms owned and operated by a small circle of owner-managers who are interrelated through kinship, marriage, common locality, and other human ties. The term *guanxiqiye* is neither an academic concept nor a legal term. It is an ordinary expression used very loosely by business people themselves, and hence lacks any precise definition. The term is the combination of two ordinary words *guanxi* (“relationship”) and *qiye* (“enterprise”). *Guanxi* in Chinese indicates a personal relationship often loaded with emotion and mutual obligation.⁶ *Guanxiqiye* thus has the connotation of a group of firms sustained in the uniquely Chinese human network and therefore is an apt expression for the type of business groups that have emerged in Taiwan. Furthermore, as I shall elaborate later on, Taiwan’s business groups are not highly integrated, exclusive “groups” of firms, but are rather loosely tied “coalitions” of firms. The term *guanxiqiye*, then, also expresses an important structural feature of Taiwan’s business groups. For these reasons, I have decided to use *guanxiqiye* as the generic term for Taiwan-style business groups.

The Tainanbang is a typical *guanxiqiye* with a strong Taiwanese flavor, for the companies which form the core of the *bang* were founded and developed by a small, tightly knit pack of merchants originating from villages near Tainan city. Its history reveals much about the crucial role of personal networks in the making of *guanxiqiye*. This is the primary reason for choosing this business group for this article. Another reason is the richness of available information. Especially valuable are the detailed memoirs written by the two brother, Wu Xiuqi and Wu

⁴ The publication began in 1972. Since then, eight issues have been published.

⁵ Not all business groups call themselves *guanxiqiye*. Some use the term *jigou* (“organization”), others *jituan* (“group”). However, from my observation, the most popular term is *guanxiqiye*, hence its choice as the generic term for such groups.

⁶ According to Jacobs [9, pp. 80–81], *guanxi* can be defined as “personalistic, particularistic, non-ideological ties between persons—based on a commonality of shared identification.” The “shared identification” may be kinship groups such as family and lineage, place of origin, year of birth, same school, and so forth. In Minnan, those who “share something in common” are called *tong-a* (same buddy). Once you find out, I was told, that someone is your *tong-a*, then you feel a strong sense of intimacy to that person. In short, Chinese *guanxi* is built on some kind of “shared identification” and the sense of intimacy that such a commonality generates.

Zunxian, founders and key leaders of the *bang*.⁷ These memoirs are the major sources of information used in this article.⁸

I. THE FOUNDING AND EXPANSION OF THE *BANG*

A. *Prelude*

The origin of the Tainanbang dates back to the late 1920s, when Taiwan was still under Japanese colonial rule. By that time, a band of merchants from Beimen (“north gate”) county near Tainan city had already established a respectable status in the cloth business in and around the city.

The first successful merchant from the Beimen area was Cai Erzhi, one of whose employees was Hou Ji, also from Beimen county and the tenth uncle of Hou Yuli. After serving as an apprentice at Cai Erzhi’s shop, Hou Ji became an independent cloth merchant and opened his own establishment, Xinfufa Cloth Store, where Hou Yuli began working in 1913 as an apprentice at the age of fourteen. Other Hou family members also were doing well in the same trade. Hou Pai, a son of Hou Yuli’s first uncle, owned Xinfumao Cloth Store; and Hou Tiao, a son of Hou Yuli’s third uncle, headed Xinfucheng Cloth Store. Hou Yuli himself later opened his own retail shop, Xinfuxing Cloth Store. The Hou family eventually became the most powerful force in the cloth business in Tainan. In 1935, when a savings association was organized by Tainan Cloth Trade Association, Hou Ji, Hou Pai, Hou Tiao, and Hou Yuli were all named as managing directors of the association, while a Japanese assumed its chairmanship. Young Wu Xiuqi, then already a general manager of his own establishment, Xinhexing Store, was selected as treasurer of the association.

The business relationship between the Hou family and the Wu family began in 1927, when Wu Kedu, the Wu brothers’ father, landed a post as an accountant at Xinfuxing Cloth Store owned and run by Hou Yuli. A year later, Wu Kedu’s eldest son, Wu Xiuqi, was hired as an apprentice at the same shop.

The father and son obtained their jobs through networks of *tongxiang* (common place of origin) and *tongzong* (common surname).⁹ The Hous and the Wus are *tongxiang*; they come from villages in the same county, Beimen county. Hou

⁷ By contrast, apart from what the Wu brothers have written about him, little is known about Hou Yuli, another main figure of the *bang*. Consequently, the following account is centered around the Wu brothers and their family.

⁸ [24] and [25]. Other sources I have consulted include [5, pp. 7–55], [11, pp. 4–36], and [26, pp. 15–26]. The following sections are based on these materials unless otherwise noted.

⁹ *Tongxiang* literally means “same home territory” where their ancestors originated. In Chinese society, however, the scope of the “home territory” contextually varies. As for the Tainanbang, it comprises a small area around Tainan city. The so-called Shandongbang, by contrast, includes all of Shandong Province as its “home territory.” *Tongzong* primarily refers to those who belong to the same surnamed patrilineal lineage. The term is often used simply to mean having the same surname. Surname associations, *zongqinhui*, in cities, for instance, consist not only of patrilineal kin, but also those who share the same surname but are otherwise unrelated.

Yuli's family resided in Erzhonggang village, while the Wu Kedu's lived in nearby Xuejiazhen village. Furthermore, the two families were related through *tongzong* ties. Hou Yuli's wife, Wu Wuxiang, comes from Xuejiazhen village, hence she is not only a fellow villager of Wu Kedu's family, but also a member of the same surname group. Wu Xiuqi writes in his memoirs that he called Wu Wuxiang "elder sister." Hou Yuli tells that his sons called Wu Xiuqi "maternal uncle." In addition, Wu Xiuqi's younger sister was married into another Hou of Erzhonggang village. The Hou family and Wu Xiuqi, therefore, had a quasi-kinship relationship.

In 1930, through his brother Wu Xiuqi's introduction, Wu Zunxian found a job as an apprentice at Xinfufa Cloth Store operated by Hou Ji. Later, Wu Zunxian's younger brother, Wu Junjie also served as an apprentice at yet another clothier shop in Tainan. The Wu Kedu family thus began their business careers and their association with the Hou family in an employee-employer relationship. Young Wu Xiuqi in particular quickly gained the confidence of Hou Yuli and was promoted to accountant at the age of eighteen, when his father Wu Kedu left the store due to illness. This suggests that a relationship of personal trust was formed between Wu Xiuqi and Hou Yuli.

B. *The Beginning: Xinhexing Store*

In 1934 Wu Kedu and his sons quit their jobs and started their own cloth retail outlet, Xinhexing Store, in Tainan city. The firm was organized as a Chinese-style partnership, *hehuo*, which literally means "rallying buddies," or *hegu*, which stands for "combining shares," with an initial capital of 4,500 yuan.¹⁰ The capital was divided into nine shares, and according to Wu Xiuqi's recollection [24, pp. 115–17], the shares were contributed as follows: three shares (1,500 yuan) by Wu Kedu, Wu Xiuqi, and Wu Xiuqi's four paternal cousins; two shares (1,000 yuan) by Wu Zunxian, Wu Kedu's younger brother, and Wu Kezhang, adopted father of Wu Zunxian; one share (500 yuan) by Wu Zhangxing, another younger brother of Wu Kedu; one share by Wu Xiuqi's father-in-law, Lai Hua; one share by Wu Xiuqi's wife, Lai Lianqiao; and one share by Wu Xiuqi's paternal cousin's husband, Wang Jinchang. Wu Xiuqi further relates that his, his father's, and his cousins' shares totalling 1,500 yuan came from a loan of 1,000 yuan from a Japanese bank and 500 yuan earned by their participation in a rotated-credit association or *hui* (*hoe-a*); that Wu Zunxian's shares also came from a loan from the same Japanese bank; that Wu Zhangxing provided parts of his shares from his other business, a carriage company also organized as a partnership; that his wife, Lai Lianqiao, put in her whole dowry as her share, which was not sufficient, so had to make up the difference with the earnings made from doing housekeeping services for the newly established firm. The initial management staff of Xinhexing Store consisted of Wu Kedu (firm representative and accountant), Wu Xiuqi

¹⁰ Wu Xiuqi writes that this amount is valued in New Taiwan dollars. The official currency in the 1930s was Taiwan yen, issued by the Bank of Taiwan and circulated only in the colony, but the face value was set on a par with the Japanese yen. I do not know how Wu Xiuqi made his conversion calculation of value of capital.

(manager), Wu Zunxian (purchasing and bill collection), and Wu Junjie (sales and general affairs).

It needs to be emphasized here that not only Wu Kedu's immediate family members, but also rather distant consanguinial kin, as well as affinal relatives, were mobilized to raise the necessary capital. In short, investors were recruited from Wu Kedu and his sons' *guanxi* network. However, not every relative, consanguinial or affinal, joined in the new business. Investors were selectively recruited from the kin pool.

Another interesting point here is that each investor seems to be an independent shareholder-partner. Wu Xiuqi's wife is a case in point. She contributed *her own* money, her dowry she brought with her, and her future earnings. Her shares and responsibilities were clearly stipulated in a contract. It seems to me that she participated in the firm *as an individual partner*, as did other initial partners.¹¹

The third point to be stressed here is that not all partners engaged in actual management. Some remained pure investors, or "silent partners," who only earned profits on their shares. As Hamilton [7, p. 22] points out, these silent partners—or "*guanxi* owners" in his terms—are rather distant relatives of the core owner-managers. This suggests, in Chinese-style partnership, (1) that partners are not equal in terms of either the amount of investment or the degree of management responsibilities, and (2) that management and ownership are separated to some extent. I shall return to these two points in Section II.

Although Wu Kedu and his sons left their posts at Hou Yuli's and Hou Ji's stores, that did not end the relationship between the Wus and the Hous. On the contrary, quite a close association continued. For instance, when the Wu family started their new shop, it was the Hou family who stood surety for the Wus to open a checking account at a local bank. Hou Yuli, in particular, later became an important partner and financial supporter of the Wu brothers.

Soon after Xinhexing Store started its operation, World War II broke out and the Japanese government control over commercial activities was tightened. In 1944 severe shortages of materials forced the Xinhexing to shut down. It was only after Taiwan's "restoration" to the Chinese Nationalist rule in 1945 that the Wu family was able to resume its business. Xinhexing Store, though reorganized, still exists today, functioning as a sort of holding and investing company for the Wus and their associates.

C. *The Big Step: Tainan Spinning Co., Ltd.*

The real foundation of the Tainanbang was laid in 1955 with the establishment of Tainan Spinning Co., Ltd. In 1953 the Nationalist government announced a plan to permit two new 10,000-spindle spinning mills. Hearing of this, the Wus of Xinhexing Store started preparations to apply for one of the mills.

First, they called on Hou Yuli to invest in this new business. At that time, the

¹¹ In the Chinese style partnership, *hegu*, each shareholder (*gudong*) has unlimited liability in proportion to the size of his or her share. Individually owned shares are alienable and can be sold with the unanimous consent of all the shareholders. All of this suggests that investors in such a partnership are relatively independent and autonomous partners.

two families already had one partnership, a weaving factory founded in 1951. This venture was terminated in 1959, but the new spinning mill was to become the core corporation for the Tainanbang.

Next, the Wu brothers invited Wu Sanlian, a prominent Taiwanese politician to participate in the preparation committee. Wu Sanlian, a former anti-Japanese activist, was then the first popularly elected mayor of Taipei city. Not coincidentally, Wu Sanlian had come from the Wu Kedu family's home village of Xuejiazhen. Moreover, they were both surnamed Wu and believed to have descended from the same ancestor several generations back. In short, they were both *tongzong* and *tongxiang*. Here again the Chinese *guanxi* network was at work.

The reason for inviting Wu Sanlian as a partner was purely political. To secure government approval over other competitors, the Wu and Hou families needed someone for lobbying activities, and they found one in the person of Wu Sanlian. Although Wu Sanlian is reported to have said that he argued only for reason and not for special favor [26, p. 18], Wu Xiuqi acknowledged once that Wu Sanlian's contribution was the greatest in securing government approval [11, p. 16]. In light of the fact that the other factory approved by the state was the one in which the Nationalist Party had substantial investment, it appears that Wu Sanlian's political connections were helpful for the Tainanbang, to say the least.

When the company was finally established and he was elected chairman of the board, Wu Sanlian was short of cash and had to borrow money to pay for the minimum shares required of a chairman by law [25, pp. 225–26]. This also suggests that what assets Wu Sanlian lent to the business were nothing but political ones.

In addition to Wu Sanlian, who was a rather symbolic chairman of the board, the initial management of Tainan Spinning Co., Ltd. included Wu Xiuqi as president and Hou Yuli as one of the managing directors. It is reported, however, that Hou Yuli remained a pure investor and trusted management responsibility to Wu Xiuqi [5, p. 21], thus Hou Yuli became an important "silent partner" of Wu Xiuqi. Here, the alliance of the three families, Wu Kedu and his sons, the Hous, and Wu Sanlians—the so-called "iron triangle"—was formed, and the backbone of the Tainanbang was thus solidified.

D. *Expansion: President Enterprise Corporation*

Combining their capital in varying degrees the Wu brothers and the Hou family have established a series of corporations. China Credit Information Service [3, p. 258] lists some twenty-seven companies as the members of the Tainan Spinning Group (Table I). In some cases, however, new entrepreneurs were invited to join the group. Here, I shall discuss one such instance, Gao Qingyuan.

In 1946, sixteen-year old Gao Qingyuan joined the then reopened Xinhexing Store as an apprentice, relying on his kinship ties to the Wu Kedu family, as a maternal cousin of Wu Xiuqi's wife [25, p. 39]. In 1949, Gao Qingyuan left the firm, and with his former colleagues and friends started a cloth retail store of his own, Dexing Cloth Store—just as the Wu family had once done with the Hou

TABLE I
THE GROWTH OF THE TAINANBANG

Corporation Name	Year of Establishment	Initial Capital (NT\$ Million)	Current Capital, 1986 (NT\$ Million)	No. of Employees, 1986
Kung Ching Textile	1953	2	479	948
Tainan Spinning	1955	8	1,815	2,857
Tak Hsing Enterprise	1958	2	62	533
Universal Cement	1960	100	1,672	452
Hsin Fu Hsing Ind.	1963	27	99	312
Taiwan Knitting	1965	10	22	381
Shin Ho Sing Ocean	1966	30	156	270
President Enterprise	1967	32	2,478	4,846
International Textile	1967	30	448	1,001
Prince Garments Mfg.	1967	7	26	500
San Shing Spinning	1968	50	300	874
Ton Yi Industrial	1969	16	720	460
Ztong Yee Industry	1972	2	202	400
Ching Shing Textile	1973	12	21	238
Prince Housing Dev.	1973	38	328	156
Universal Premixing	1975	40	55	120
President Global Trading	1975	5	10	3
President Leasing	1978	50	150	38
President Fine Chemical	1979	50	450	220
Nanlien International	1979	240	198	70
President Computer	1979	10	10	10
Nan Fan Industrial	1979	15	100	28
Chao Hsin Corp.	1980	60	100	24
Shin Ho Sing Invest.	1981	50	62	8
Nan Fan Leasing	1981	50	50	3
Kaohsiung Premixing	1981	—	76	36
Chia-I Premixing	1982	20	27	37

Source: [3, p. 258].

family's shops. In 1953 Dexing Cloth Store was reorganized into a new dyeing factory, Dexing Company, which later evolved into Tak Hsing Enterprise Co., Ltd., an apparel maker. These developments involved other leaders of the Tainanbang as well. Gao Qingyuan apparently maintained close relationships with his former employers, although he was becoming increasingly independent.

When Tainan Spinning was established in 1955, Wu Xiuqi invited Gao Qingyuan to work for the new company as a manager. Gao Qingyuan agreed and once more became an employee of his former boss. It is reported that Gao Qingyuan wanted to try managing of a large-scale enterprise [28, p. 456]. Thus, Gao Qingyuan left the top management of Dexing Company—though presumably he retained his shares—and became a middle-ranking manager at Tainan Spinning, where he worked for twelve years.

Then, in 1967, financially backed by the Wu family and the Hou family, Gao Qingyuan took the initiative in creating a new food company, President Enterprise Corporation. The Wus and the Hous still remain as the major shareholders of

the company. From the beginning till today, however, Gao Qingyuan has been the president of this firm and in fact its chief executive officer, although Wu Xiuqi has been the chairman of the board. No longer a mere employee, Gao Qingyuan thus became an important junior partner of Wu Xiuqi.

The pattern of building President Enterprise Corporation is quite similar to that of Tainan Spinning Co., Ltd., in that the former boss provides capital and lets the trusted former employee manage the new firm. Hou Yuli is to Wu Xiuqi what Wu Xiuqi is to Gao Qingyuan. In other words, based on the bond of "personal trust," the relation between employer and employee is transformed to that of senior and junior partners, with the latter being an active manager and the former remaining a "silent partner."¹²

As he started the new company, Gao Qingyuan utilized his own *guanxi* network. Zheng Gaohui, now a high-ranking manager in several Tainanbang companies, is a case in point. According to his own account, Zheng Gaohui became an associate of the Tainanbang when his "close friend" Gao Qingyuan invited him to participate in the creation of President Enterprise Corporation. Zheng Gaohui says that he as a novice cloth merchant in Tainan always admired Wu Xiuqi, an already well-known general manager of Tainan Spinning Co., Ltd., and was delighted to meet him at the board meeting of President Enterprise, of which Wu Xiuqi was the chairman. Apparently, Zheng Gaohui was an able manager, for Wu Xiuqi later invited Zheng Gaohui to succeed to the position of general manager of Tainan Spinning. Here is a situation where locally developed networks of non-kin *guanxi* were at work.

President Enterprise was created as the Tainanbang diversified its business into new industries. As the company grew, President Enterprise itself began to diversify its activities by creating subsidiaries in different sectors: foreign trade, real estate, leasing, and so on. President Enterprise also has engaged in a number of joint ventures with foreign corporations, such as Seven Eleven and Kentucky Fried Chicken franchises. These affiliates are directly controlled by Gao Qingyuan himself. Gao is chairman of all fifteen subsidiaries of President Enterprise Corporation, which together with the mother company constitute a self-acknowledged *guanxiqiye* of its own, the President Group [, pp. 761-73].¹³ In short, Gao Qingyuan became an important owner-manager with his own sphere of influence, but he still operates within the network of Tainanbang leaders.

E. Summary: Network-based Entrepreneurship

The above discussion indicates that a variety of personal network, or *guanxi*, were mobilized to raise capital, to recruit personnel, and to obtain vital information. Here, I shall summarize some general characteristics of personal networks involved in the making of the Tainanbang.

¹² Such a development seems not uncommon in Taiwan. For instance, Zhang Guoan started as an employee of Huang Jijun, but as their business grew into one of the largest motorcycle assemblers in Taiwan, Zhang Guoan became an important junior partner of Hou Jijun in terms of both ownership and management of their company, San Yang Industry Co. Ltd. For more details, see Zhang Guoan's autobiography [27].

¹³ This 1990/91 edition of *BGT* is the first in the series to list the President Group separately from the Tainan Spinning Group.

1. *Pragmatic mobilization*

First, I would like to reiterate the very pragmatic nature of network utilization in making joint investments or cultivating political connections. Almost any kind of network is used if it is useful.

As seen in the case of Xinhexing Cloth Store, patrilineal *guanxi* plays an important role, and partnerships between paternal brothers and cousins are the most conspicuous form of making joint investments. Also salient in partnerships are affinal relationships. Lastly, circles of people who share a certain "commonality," such as *tongxiang* or *tongzong*, are of great importance. These *guanxi* all presuppose some kind of "sameness."

It needs to be stressed that each *guanxi* is formed on a person-to-person basis, as in the case of Wu Xiuqi and Hou Yuli, or Gao Qingyuan and Wu Xiuqi. Even within a family, as the Wu family of the Tainanbang indicates, family members participate as individual partners and are held responsible for their own shares in the family firm. A family tie, patrilineal or affinal, is yet another example of the *guanxi* between individuals. A kin relationship, like any other *guanxi*, may or may not be used for business activities. I therefore regard the Chinese family firm more as a partnership between kin-related individuals than a sole proprietorship owned by a united family.¹⁴

2. *Political connections*

The role of Wu Sanlian in the Tainanbang in particular indicates that links to the political circle are an important aspect of personal networks around *guanxiqiye*. Especially in the early days of Taiwan's industrialization, political ties were crucial in launching large-scale manufacturing firms, for government approval was necessary for both opening a new factory and obtaining needed raw materials.

In Wu Sanlian's case, it was his *tongxiang*, or hometown friends, who approached him for access to government officials. It seems that leaders of the Tainanbang were eager to cultivate such ties, for they supported Wu Sanlian in several elections prior to the establishment of Tainan Spinning Co., Ltd. Being a native Taiwanese and a well-known anti-Japanese activist, Wu Sanlian was an ideal candidate for political office in the early years of Nationalist rule. In Wu Sanlian the fledgling Tainanbang found a channel of communication and connection with political decision makers.

As the *bang* grew, other links were formed with the state bureaucracy and the Nationalist Party. The *tongnian* association to which Wu Zunxian belonged (to be discussed in Section III below) included some financial bureaucrats and many elite entrepreneurs entrenched deeply in political circles. Recently, Gao Qingyuan has been rising within the Nationalist Party hierarchy.

These developments suggest that political connections are actively cultivated by entrepreneurs in a way similar to how business ties are formed; that is, through very personal *guanxi* networks based on a certain "sameness" such as same place of origin, *tongxiang*, or same age group, *tongnian*.

¹⁴ For a more detailed discussion of this point, see [14, pp. 354-65].

3. *From network to partnership*

The history of the Tainanbang exemplifies an important pattern of corporate development in Taiwan. That is to say, potential entrepreneurs mobilize their personal network of *guanxi* and bring a set of partners together to form a partnership and contribute certain resources to the new enterprise.¹⁵ The resources include not only money capital but also managerial skill or political connections, all of which are indispensable for doing business in Taiwan. Chinese partnership is a combination of various managerial resources.

Partnership between closely related circles of investor-managers, therefore, is the basic pattern of business formation. Usually, an organizer seeks co-investors and co-managers within his or her *guanxi* network: e.g., kin, friends, fellow villagers, and the like. Such a partnership, however, does not automatically imply equality among all partners. Some partners invest more than others. A few partners with larger investments occupy key managerial positions like chairperson of the board or general manager, while others with smaller investments assume secondary positions, such as director or auditor, and still others do not hold any office at all and remain "silent partners"; i.e., pure investors.¹⁶ Occasionally, the dominant investor may relegate managerial responsibility to a trusted junior partner and become a *de facto* silent partner as in the case of Hou Yuli and Wu Xiuqi or Wu Xiuqi and Gao Qingyuan.¹⁷ To summarize, partnership is the foundation of Chinese business, traditional or modern.

A firm, then, is a human network transformed into a business partnership; and *guanxiqiye* is a complex of partnerships enmeshed in a web of human networks. How is a *guanxiqiye* organized? First, let us consider the question of ownership and management using the case of the Tainanbang.

II. OWNERSHIP AND MANAGEMENT OF THE *BANG*

It is not easy to identify where the *bang* begins and ends, for in the case of the Tainanbang, leaders frequently engage in partnerships with members of different

¹⁵ "Bringing partners and resources together" by the way is not unique to business enterprise. Rotating credit associations *hui* or *hoe-a* for example, are organized precisely in the same manner. Michio Suenari, a Japanese social anthropologist, maintains that this behavior is a basic principle of Chinese social interaction in general [20, p. 321].

¹⁶ Silent partners, as suppliers of money capital, are an integral part of Chinese partnerships. In some cases, silent partners may not remain silent. For example, they may openly complain if they do not receive decent earnings on their investments. They might even withdraw their shares if the enterprise is not properly managed.

¹⁷ The senior partner does, in many cases, hold a seat on the board even if he or she relegates the chairmanship or presidency to a junior partner. The senior partner therefore is not always a silent partner in the strict sense of the term. In reality, however, such a senior partner is very close to being a silent partner. Especially when a single person holds the chairmanship in a number of companies, he or she cannot personally exercise managerial authority in each and every company. As a result, he or she is forced to relegate daily management to junior partners in many firms and remain "silent." In such cases the senior partner's title becomes nominal.

TABLE II
LEADING OWNERS OF THE TAINANBANG'S THREE MAJOR CORPORATIONS

Name (Relationship)	Tainan Spinning	Universal Cement	President Enterprise (%)
Wu Junmin (Wu Sanlian's son)		0.007	
Wu Xiuqi	0.44	0.3	0.74
Wu Zunxian (brother)	0.51	1.45 ^a	
Wu Junjie (brother)		0.22	0.86
Wu Zhongzheng (nephew)			2.17
Wu Junsheng (brother)		0.21	
Hou Yuli ^b	5.04	0.006	
Hou Yongdu (son)	2.28	1.43	1.55
Hou Chen Bihua (daughter-in-law)	1.71	0.46	1.49
Hou Boyi (grandson)	6.01		3.13
Hou Boyu (grandson)	5.92		3.14
Hou Boming (grandson)	5.63		2.58
Huang Jindai (son-in-law)		0.15	
Yan Xiufeng (son-in-law)		0.05 ^c	
Gao Qingyuan			1.27
Gao Lai Huan (wife)			1.75
Gao Xiuling (daughter)			1.70
Zheng Gaohui	0.82		

Sources: [4, pp. 324–35] [15] Universal Cement, *Annual Report, 1988* (1988).

^a As a representative of Rangde Investment Corp.

^b As a representative of Xinyongxing Corp.

^c As a representative of Shin Ho Sing Ocean Enterprise.

guanxiqiye. The border between different *guanxiqiye* is not so clear as it may appear. This problem will be the subject of Section III.

First, let us focus on the major firms listed as members of the Tainan Spinning and President Enterprise Groups in the 1990/91 edition of *BGT* [4], and explore the internal organization of the Tainanbang.¹⁸

A. *The Structure of Ownership*

As mentioned in the previous section, the Hou Yuli family, Wu Xiuqi and Wu Zunxian families, and Wu Sanlian's family have established a series of companies under their partnership, and the Tainanbang became one of the largest *guanxiqiye* in contemporary Taiwan. As a result, the major corporations of the *bang* are jointly owned by the three families (Table II). This ownership pattern is the prod-

¹⁸ China Credit Information Service's grouping of firms do not necessarily corresponds to that by *guanxiqiye* itself. For instance, the companies listed as the members of President Enterprise Group in the 1990/91 edition of *BGT* [4] do not correspond exactly to the self acknowledged members enumerated in the latest pamphlet of President Enterprise Corporation I obtained [16].

TABLE III
SUBSIDIARIES OF PRESIDENT ENTERPRISE, 1987

Corporation Name	% Owned	Corporation Name	% Owned
Mandarin Delight	100	President Frito-Lay	50
Nanlien International	100	Ztong Yee Industrial	50
President Chain Store	100	Pres. Natural Indust.	50
Ton Yi Investment	100	Mospec Semiconductor	50
Pres. Global Trading	98	Premierfoods	50
Kentucky Fried Chicken	55	Ttet Union	27
San-Pres. Enterprise	55	Hui Tung	16
<hr/>			
Ton Yi Industrial	30 ^a		
Prince Housing Development	13 ^a		
President Leasing	8 ^a		

Source: [15].

^a Shares owned by Ton Yi Investment.

uct of what CCIS calls the "sister type" investment.¹⁹ Member companies share the same set of owners as their "parents" and thus stand as "siblings" to one another.

Second, in some cases, corporations themselves may establish subsidiaries and hold their shares. This is a result of the so-called "mother-child type" investment pattern.²⁰ The company does not always hold 100 per cent shares in its subsidiaries, and in some instances it remains a minority shareholders. Chinese word for subsidiary, *zhuantouzi shiye* ("transfer investment") may be more apt than the English term, "child companies." When a mother has a number of children who in turn give birth to grandchildren, a pyramid-like ownership pattern emerges.

By giving birth to a number of "children," President Enterprise Corporation gradually began to form a pyramid-shaped group (Table III). President Enterprise Corporation grew into the largest manufacturer of food products in Taiwan by adding new divisions as it diversified its product lines. Increasingly, however, the company used its own earnings to establish a series of separate firms in food-related, as well as non-food-related, fields. Today, President Enterprise Corporation even has its own investment firm which functions as a secondary "mother" to a few subsidiaries.

The case of President Enterprise Group also indicates, therefore, that a corporation will opt for "mother-child type" investment strategy when it can afford to do so. According to one economic journalist, more and more companies prefer direct subsidiaries to partnerships, because they became cash rich.²¹ In his view, entrepreneurs of the past were compelled to form partnerships, since they lacked sufficient capital for growth in the early days of Taiwan's economic development.

¹⁹ For a detailed discussion of "sister type" investment, see [13, pp. 496-97]. I borrowed the term "sister type" from [2, p. 13].

²⁰ See [13, pp. 497-98]. The phrase "mother-child type" also is coined by the editors at CCIS [2, p. 14].

²¹ From an interview conducted by the author in August 1989.

Looked at more closely, however, the pyramid is far from perfect in President Enterprise Group, for many investors other than the mother company are involved in the ownership of the subsidiaries of President Enterprise. Not a few subsidiaries take the form of partnerships as the mother company itself does.

Third, the examination of relationships among key owners reveals the existence of "indirect partners." Yan Xiufeng of Universal Cement and Gao Qingyuan of President Enterprise, for example, are such indirect partners (see Table II). Yan Xiufeng is not an owner of President Enterprise, and Gao Qingyuan has nothing to do with Universal Cement; they are not bound by any direct relationship. However, the Hou family and the Wu family have shares in both corporations, which connects the two companies. The Hous and the Wus are partners to both Yan Xiufeng and Gao Qingyuan. Yan and Gao, then, have become partners of partners to one another, or, in my terminology, "indirect partners." This form of indirect partnership is the so-called "marriage type" investment link.²² The Hou family and the Wu family are the go-between who "married" Yan Xiufeng and Gao Qingyuan.

Yan Xiufeng like Gao Qingyuan started his career as an apprentice at Xinhexing Cloth Store. Yan Xiufeng later married a daughter of Hou Yuli, one of the three pillars of the Tainanbang, and became part of the kinship network that underlies the *bang*. Yan Xiufeng now holds key managerial positions in a number of companies, especially those in which the Hou family has substantial shares. He is now an important junior partner of Hou Yuli.

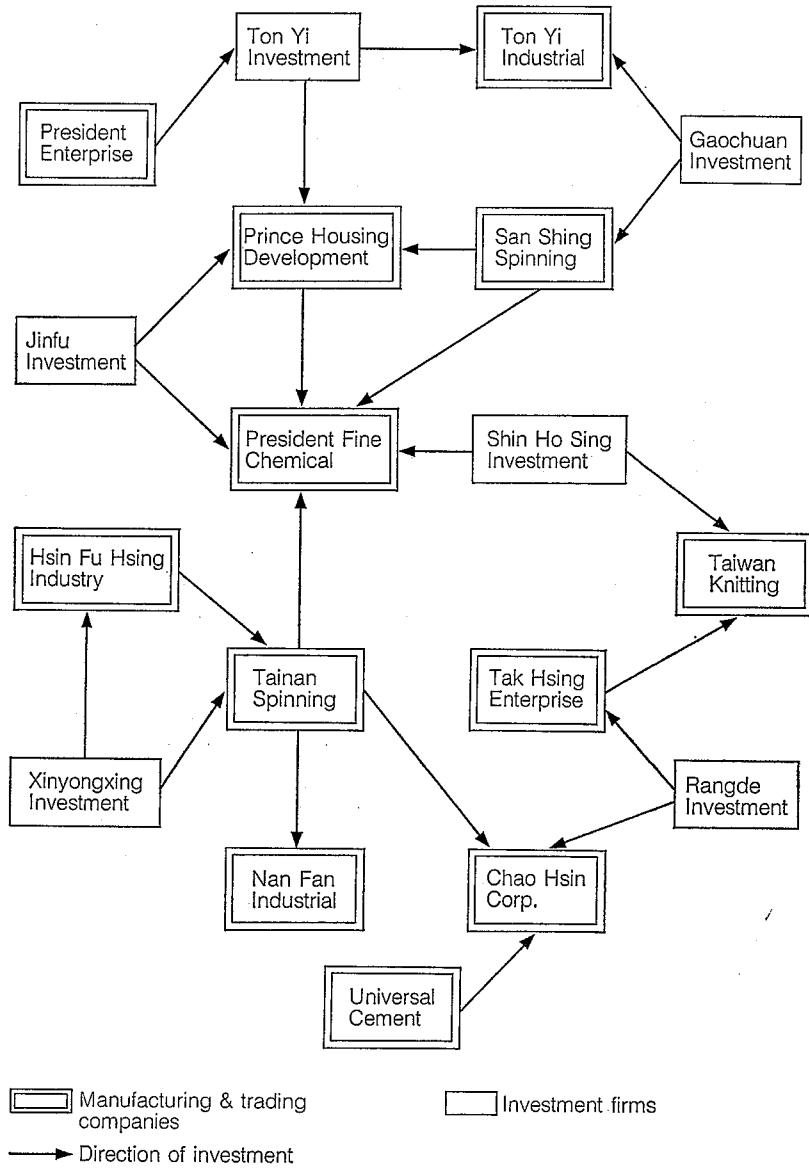
Finally, in recent years investment firms and nonprofit corporations have begun to function as holding companies and to solidify inter-corporate relations within the Tainanbang. As the *bang* grew and member firms multiplied, indirect ownership through holding companies seems to have increased its importance.

Creation of holding companies may also serve to prevent the dispersal of stock during generational transitions. The rule of inheritance in Chinese society is, in principle, equal partition among brothers born to the same father. "Shares in the enterprises are clearly assigned at the beginning and each son inherits shares from his father only," if assets are owned jointly by brothers in the same family business [12, p. 70]. As a result, the share of the enterprise owned by the founding father is divided among brothers, each of whose shares in turn will be divided among their sons. With the establishment of a holding company, however, dispersal of stock can be prevented. The holding company will retain the shares in group corporations and thus maintain the unity of *guanxiqiye*.²³ The Wu Zunxian Cultural and Educational Foundation was created by the sons of Wu Zunxian to commemorate their father's achievements and to return a portion of corporate profits to society. It is said that the sons voluntarily donated their shares to the

²² See [13, p. 499]. The term "marriage type" also was first used by the editors at CCIS in [2, pp. 14-15].

²³ The shares of the holding company itself may still be divided among successors and therefore the control of the holding company could become a problem. Nevertheless, the control of group corporations will be retained through the holding company, if the holding company remains in the hands of the owner family.

Fig. 1. Holding Relations in the Tainanbang



Source: [4, pp. 315-29, 761-73].

foundation. Whether it was intended or not, what resulted was that stocks once dispersed among brothers were reconcentrated into a nonprofit organization, which may function as a holding company. Whether the purpose of setting up investment firms and foundations is to maintain the ownership of *guanxiqiye* during generational transitions remains a topic for future research.

The interconnection between companies within the Tainanbang is very complex as shown in Figure 1. The most salient feature of this intricate network is what I call "overlapping ownerships." Tainanbang member corporations are all held through partnerships among its major owner-managers. Each company, in other words, is jointly owned by a set of partners. A comparison of sets of partners reveals that there is a significant overlap of partners across different corporations within the *bang*. For example, Wu Xiuqi and his brothers along with Hou Yuli's family are the common stockholders (i.e., overlapping owners) in Universal Cement and President Enterprise (see Table II).

The number of overlapping owners may vary from company to company, but any two firms in the Tainanbang share some owners in common, who function as the cement holding the *bang* together. If a firm is a form of partnership, then a *guanxiqiye* is a coalition of partnerships joined together by the presence of overlapping owners.²⁴

B. *The Structure of Management*

The management structure of the Tainanbang parallels the ownership pattern. Directors and chief managers overlap across companies in the *bang* (Table IV). Such key figures as Wu Xiuqi and his brothers, as well as Hou Yuli and his family, sit on the boards of many corporations. I would like to call this the "overlapping directorship."²⁵ The board of directors of member corporations of the Tainanbang, then, consist of more or less a similar set of directors. By virtue of an overlap of directors, in this case the Wu brothers and the Hou family, separate companies are linked to one another. The Wus and the Hous form the hub that keeps its corporate spokes intact. Each corporation's board, on the other hand, reveals its own set of partners, some of whom, not necessarily the senior ones, take care of its management. Also, the constellation of directors slightly differs from one company to another. Table IV illustrates this point clearly with respect to the three largest public corporations in the Tainanbang.

One consequence of the above outlined management structure of *guanxiqiye* is a relative "separation" of ownership and management.²⁶ The management of Chinese corporations in Taiwan consists of two separate levels: the board of directors and auditors which sets broad corporate policies, and the group of

²⁴ This is a characteristic common to other *guanxiqiye* in Taiwan. See [14, Chap. V] for a fuller discussion.

²⁵ Hamilton and Kao [8, pp. 15–16] calls this the "duplicated hierarchies" and argue that it is a common feature of *guanxiqiye* in Taiwan. My study [14, Chapter V] also shows that the overlapping directorship is not unique to the Tainanbang, but is commonly found in many large *guanxiqiye*.

²⁶ I put the term separation in quotation marks here, because its meaning is different from that in advanced capitalist societies.

TABLE IV
OVERLAPPING DIRECTORSHIP IN THE THREE MAJOR CORPORATIONS, 1990

Name (Relationship)	Tainan Spinning	Universal Cement	President Enterprise
Wu Xiuqi	Chairman	Managing Director	Chairman
Wu Zunxian (brother)	Managing Director	Chairman	
Wu Junjie (brother)	Director	Director	Director
Hou Chen Bihua	Managing Director	Director	Director
Hou Boyi (son)	Director		Director
Hou Boyu (son)	Director	Managing Director	
Yan Xiufeng (brother-in-law)	Director	Managing Director & President	
Gao Qingyuan	Auditor		Managing Director
Zheng Gaohui	Managing Director & President		Managing Director

Source: [1, pp. 100, 144, 264].

managers who carry out daily management activities under the leadership of the general manager. The overlap of management within a *guanxiqiye* is observed at the level of the board of directors and auditors alone, hence “overlapping directorship.”²⁷ Managers by contrast are responsible usually for a specific division of a single corporation. As Hamilton and Kao observed:

This person [manager] may or may not be a family member, and, in fact, often is not. The person is usually a “professional” manager, either in terms of education or experience. These firm managers, in turn, are seldom linked into a larger formal management structure beyond the firms. [8, p. 14]

In the Tainanbang, member corporations are connected by overlaps at the level of directors, but are separated at the level of managers, who are responsible for daily management affairs at a particular company.

Being a director, or *dongshi*, in several organizations, a major owner is in a position to oversee the operation of many firms.²⁸ The management of each company is thus distinct from the ownership of many firms, or, as Hamilton and Kao put it, “day to day management of firms is separated from the actual control of the group” [8, p. 14].²⁹

The other side of “overlapping directorship” is the lack of centralization in the *bang*. Being a group of more than thirty firms, the Tainanbang has institutionalized neither a position of “group chairman” nor a coordinating organ like a “secretariat to the group chairman,” that would characterize large Korean diversified business groups, called *chaebol*. Hamilton and Kao [8, pp. 18–19] reports that in many *guanxiqiye* “each member firm keeps a separate account book,” and that “separate accounts . . . are not integrated into a central accounting system.”³⁰ Some of the top managers of the Tainanbang meet once every month to facilitate communication within the *bang*,³¹ but such a meeting is far more informal than the highly institutionalized “president clubs” of big Japanese business groups (*kigyō shūdan*), such as Mitsui and Mitsubishi.

²⁷ In Taiwan, there is no clear separation between the executive board and the supervisory board. Auditors, as a result, sit on the same board with directors. Moreover, auditors are often close associates or relatives, if not family members, of the dominant directors on the board. I therefore treat auditors as more or less equal to directors.

²⁸ In Chinese, *dongshi* generally implies someone who oversees entrusted properties or public affairs. Not only business partnership but also guilds, village temples, the joint-property of a lineage, and surname associations are managed by a group of *dongshi* selected by all the parties involved in the organization.

²⁹ My formal analysis of ownership and management structures can tell that the owners, by being present on several boards, provide inter-corporate links within a *guanxiqiye*, while middle- and low-level managers do not. I do not have independent data to confirm or question Hamilton and Kao’s claim of the separation of firm “management” from group “control,” a conclusion based on Kao and his students’ interview data [8].

³⁰ Some *guanxiqiye* have begun to rectify this lack of integration recently by establishing an office called “group administration” (*zongguanlichu*). According to a high-level manager of a state-owned bank, at Formosa Plastics Group and at Far Eastern Group, administration offices centrally control financial matters of member corporations (author’s interview, May 1990). I do not know, however, whether these group administration offices control all or just some of the member firms’ financial matters.

³¹ Author’s interview at President Enterprise Corporation, August 1989.

The only connection between member firms at the management level in the Tainanbang, therefore, is a shared body of owner-managers, "overlapping directors," who are in the position to oversee the management strategy of the *guanxiqiye* as a whole. In general, then, structural integration of *guanxiqiye* management remains weak at best. In comparison with Korean *chaebol* or Japanese *kigyō shūdan*, Chinese *guanxiqiye* in Taiwan look more like a collection of independent firms than an organized "business group."

The integration of Chinese *guanxiqiye* therefore depends highly on the strength of solidarity among the key owner-managers. The Tainanbang has been famous for the unity of its founding partners, the "iron triangle" of Hou Yuli, Wu Xiuqi, and Wu Sanlian; however, Hou Yuli and Wu Sanlian have already deceased, and with the passing of the first generation, the solidarity of the *bang* has reportedly weakened. Whether the *bang* can stand this generational change and continue as a united *guanxiqiye* remains to be seen.

C. The "Banana-Bunch-Shaped" Partnerships of Partners

The two most salient characteristics of the ownership and management of the Tainanbang are "overlapping ownership" and "overlapping directorship." However, the two are merely different sides of the same coin, and indicate that the fundamental structure of the *guanxiqiye* is partnership. Partners share in ownership by putting their investment capital together in a series of companies, hence the "overlapping ownership" aspect, and cooperate in management by holding seats on boards of directors and auditors, hence the "overlapping directorship" aspect.

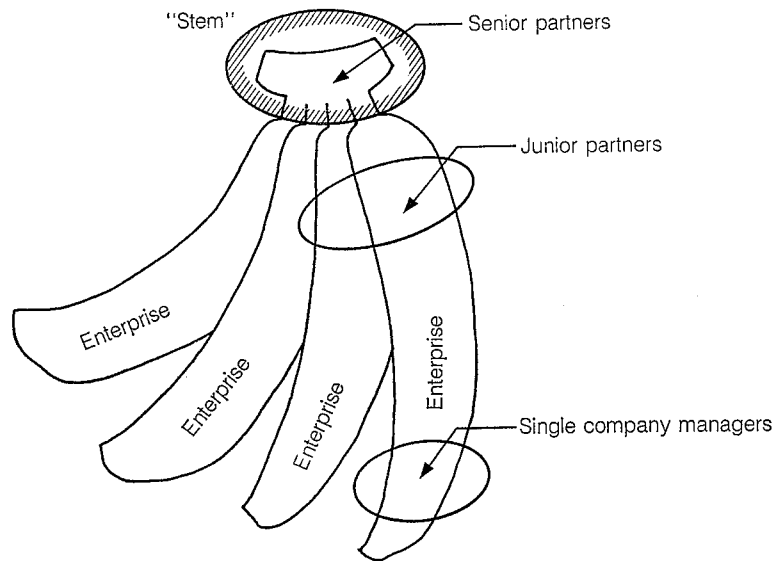
This basic design may be described as a banana-bunch-shaped configuration of "partnerships of partners."³² Figure 2 makes the point that *guanxiqiye* is more a collection of loosely joined corporations than a tightly organized conglomerate or "business group" in the popular sense.

Each banana represents a member corporation and its board of directors, the set of partners who own the company. It is not unusual that different boards consist of different sets of directors, though there is usually significant overlap. This means that each corporation is organized as a separate partnership among a particular set of partners. This is one of the main reasons why manager-level organizations are not duplicated like the board of directors. Each banana is, to some extent, independent from the other bananas of the same bunch. In the Tainanbang, as seen in Table II, the lineup of top shareholders slightly differs from one enterprise to another. The composition of the directorships within the *bang* also are somewhat different from one enterprise to another, as shown in Table IV.

What brings these enterprises together is the overlap of key partners, who form the "stem," as it were, that keeps the enterprises bunched together like bananas. In the case of the Tainanbang, it was the "iron triangle" of Hou Yuli,

³² The analogy of "banana bunch" occurred to me when Dr. S. Gordon Redding draw a similar figure on the blackboard during a workshop at the University of Hong Kong in December 1989. I owe this idea partly to Dr. Redding.

Fig. 2 The Banana-Bunch-Shaped Partnership of Partners



Source: [14, p. 223].

Wu Xiuqi, and Wu Sanlian who provided this stem for the entire *bang*. By being on many, if not all, boards of directors, these key figures bridged the various partnerships formed, and thereby brought the resulting enterprises together into a single bunch (i.e., a *guanxiqiye*). The prominence of those core owner-managers gives the *guanxiqiye* an appearance of what is generally known as a “business group.” More accurately, however, the core persons are the senior partners in a number of different partnerships, each of which may contain a different set of junior partners. What is commonly called the “owner” or the “owner family,” therefore, is a set of senior partners who function as the stem that keeps many enterprises together in a single bunch.

On the other hand, there are some important owner-managers who commit themselves to only a few pieces in the bunch. Gao Qingyuan is a case in point. As a junior partner of Wu Xiuqi and Hou Yuli, he presides over President Enterprise Corporation and its subsidiaries. Yan Xiufeng of Universal Cement is another example of such a junior partner. They, as junior partners, are in the position to uphold the “stem” provided by the Wus and the Hous. Supplementary as they are, these junior partners are an integral part of the *guanxiqiye* structure.

Finally, there are those “professional managers” who belong to single enterprises in the bunch. They work in a single corporation and take care of daily management responsibilities.

The Tainanbang in the above sense is therefore a loose coalition of partnerships. It is the personal bonds among the senior partners and between the senior and junior partners that lay the foundation of *guanxiqiye*. Unlike Korean *chaebol* or Japanese *kigyō shūdan*, the *guanxiqiye* in Taiwan takes the form of a banana-bunch-shaped configuration of partnerships of partners.

III. NETWORKS BEYOND THE BANG

One important characteristic of Taiwan's *guanxiqiye* is that they are not closed groups. Various capital and personal relationships exist between different *guanxiqiye*.³³ Here, focusing on Wu Zunxian's network, I shall discuss examples of such cross-group connections.

A. *The Trade Association*

One of the Tainanbang's engagements outside the group is their investment in Reward Wool Industry Corporation. According to Wu Zunxian [25, p. 66], the company was established in 1964 as a joint venture by members of the Wool Weavers Trade Association.

Trade associations (*tongye gonghui*) in Taiwan are more government sponsored organizations than voluntary gatherings of private enterprises. The Nationalist government organized trade associations as a means of monitoring and controlling industries and communicating official policies and directives to private entrepreneurs. Nevertheless, the trade association also functions as a meeting place of elite businesspeople, for the directors of trade associations are often the leading entrepreneurs in their industries.

Kung Ching Textile, Co., Ltd., one of the Tainanbang companies, was a member of the Wool Weavers Association, and hence was invited to invest in the new venture. Instead of Kung Ching Textile, which was tied up with its own expansion project, Shin Ho Sing Co., Ltd. (formerly Xinhexing Cloth Store) invested in the new company. Today, Wu Shaonan, a son of Wu Zunxian, sits on the board of Reward Wool directors as a representative of Shin Ho Sing.

By investing in Reward Wool Industry Corporation Wu Zunxian, a native Taiwanese (*benshengren*), was provided with a connection (*guanxi*) to the Chinese Mainlanders (*waishengren*).³⁴ Many of the Wool Weavers Trade Association members who invested in Reward Wool were Mainlanders closely associated with the government [17, pp. 663–64]. Seven out of the nine wool-weaving companies in operation in 1962 were known to be Mainlander-owned; and Bank of Transportation, one of the four major state-owned banks, had capital links to four of these Mainlander mills. It is therefore very likely that the project was

³³ See [13] and [14].

³⁴ Taiwanese (*benshengren*) refers to the descendants of the Chinese population who migrated to Taiwan prior to the Japanese colonial occupation. Mainlander (*waishengren*), on the other hand, refers to those Chinese who moved to Taiwan after the "retrocession" and their offspring. The two groups are distinct (and often antagonistic) "ethnic groups" divided by linguistic, social, political, and economic differences. For a good summary of the ethnic situation in Taiwan, see [6, pp. 241–81].

initiated by the government. The selection of Ying Changqi, a native of Zhijiang Province, as the first chairman of the board seems to indicate such government involvement.³⁵

Incidentally (or may be not too incidental after all) Ying Changqi and Wu Zunxian, who were born in the same year, belong to the same *tongnianhui*, an informal age group gathering of people who include the stars of business and economic bureaucracy. Let us look at the network formed by such age groups.

B. *The Tongnian Network*

In his memoirs, Wu Zunxian mentions his association with Gu Zhenfu, chairman of Taiwan Cement and China Trust. Gu Zhenfu belongs to the higher circle of Taiwan's business and political elites. He not only heads Taiwan Cement Group and China Trust Group, but also serves as president of the Chinese National Association of Industry and Commerce, and is a member of the Standing Committee of the Nationalist Party's Central Committee.³⁶ How did their association begin?

Wu Zunxian recalls in particular that he and Gu Zhenfu are *tongnian*, i.e., born in the same lunar calendar year, and that along with some other *tongnian* friends they used to meet and dine once a month "to discuss anything but politics" [25, p. 71]. According to one account, this meeting of the *tongnian* entrepreneurs and officials was started more than twenty years ago by twelve members. Besides Wu Zunxian and Gu Zhenfu, the members consisted of well-known businessmen and famous financial bureaucrats including Ying Changqi, Wang Yongqing of Formosa Plastics Group, Cai Wanchun of Cathay Group, Lin Yijia of Taiwan Glass Group, and Tu Wanchuan of Wan Yuan Textile from the private sector, and Hualian-born Lin Yongliang and Jin Kehe, a native of Anhui Province, from the state-controlled financial sector [19, p. 24]. Such an informal circle across *guanxiqiye* and government lines, as well as across Taiwanese and Mainlander circles, must have served as an important channel of communication and co-

³⁵ Ying Changqi started his career as a manager in the state-owned bank system. The following summary of his career is based on Liao Qingzhou's account [10, pp. 323-33]. In 1937, Ying Changqi obtained his first position at Fujian Provincial Bank. It was there he met Yan Jiagan, who was then serving in the provincial government of Fujian. When Yan Jiagan was dispatched to Taiwan soon after its "retrocession" to the Nationalist regime, Ying Changqi accompanied Yan Jiagan as his secretary. When Yan Jiagan became chairman of the Bank of Taiwan in 1946, Ying Changqi also became a manager at the bank. Ying Changqi was promoted to vice general manager in 1950 and stayed at the bank until 1963, at which time he was invited to serve as chairman of Reward Wool.

³⁶ Gu Zhenfu's father, Gu Xianrong, was a prominent collaborator-elite during the Japanese colonial period. Gu Xianrong, an unknown businessman from the port city of Lugang, served as a guide for the Japanese occupational forces when they landed in Taiwan in 1895. Since then, Gu Xianrong became the most celebrated protégé of the Japanese rulers and made a fortune thanks largely to the protection and promotion by the colonial government. By the end of Japanese occupation, the Gu family of Lugang became one of the five elite families of colonial Taiwan, along with such traditional elites as the Lins of Banjiao and the Lins of Wufeng. The Gu family, therefore, has been a political entrepreneur for two generations. For the history of the Gu family, see [10, pp. 300-312] and [18, pp. 81-167]. For the business activities of the Gu family under Japanese rule, see [23].

operation between the state and the business community and among different *guanxiqiye*.³⁷

A case in point is the establishment of trust companies by members of this age-based network in 1971, when the government for the first time permitted the entrance of private entrepreneurs into trust business. Wu Zunxian tells that he was first approached by Cai Wanchun to invest in his planned Cathay Trust, but he opted for another plan by Gu Zhenfu to reorganize China Securities and Investment Company, in which both Wu Zunxian and Gu Zhenfu already had stakes, into a trust company [25, pp. 70–71].

Here, we can see how informal networks function in working out new partnerships or reorganizing existing ones across the boundaries of *guanxiqiye*.

C. *Shinlee Corporation*

We also see inter-*guanxiqiye* partnerships being initiated quite casually, in Wu Zunxian's story about the creation of Shinlee Corporation.

In the spring of 1969, Wu Zunxian was approached by Chen Maobang, the owner of Sampo Corporation, which had ties to Sharp, a Japanese home appliance maker. It happened at Songshan Airport in Taipei. Wu Zunxian went there to send off some guests, and recalls that someone suddenly called to him. It was Chen Maobang. Chen told Wu that he wanted to talk with him about something. Since Wu was busy seeing off his guests, he invited Chen to come to his office later and have a talk. When Chen Maobang came to see Wu at his office in Universal Cement, Chen was carrying a proposal for joint-venture.

I am an agent for both Japan's Sharp and Sony, but because of many relationships, I devote myself more to promoting Sharp's products, and I have received complaints from Sony. I heard your Shin Ho Sing also deals in electronics. If you are interested, I would like you to do it [become a dealer for Sony] together with us. If we do it ourselves, we would be forced to favor Sharp products, which are cheaper and thus easier to sell. So I think I should invite someone to do it together so as not to drift [toward Sharp's products]. We don't need too much capital. My tentative plan is NT\$20 million. Each party provides 50 per cent. [25, p. 73]

Wu Zunxian replied that he would have to consult his colleagues about the offer. Wu not only conferred with his fellow managers, but also sought advice from several others. One was the then Minister of Economic Affairs, Li Guoding. At a three-day workshop organized by Minister Li, Wu found a chance to talk privately with him about the project. Wu relates in his memoirs that Li Guoding advised him positively, saying that Sony had a good reputation world-wide, and so the prospect for the venture seemed good. Wu also discussed with Wu Sanlian who knew Chen Maobang better, because the two were representatives in the Provincial Assembly for some time together. Wu Zunxian remembers Wu Sanlian saying, "Brother Maobang is a good man, he would not take advantage of friends. . . ." [25, p. 73]. The deal was made. Each of the two parties provided 50 per cent of the initial capital. Chen became the chairman of the board, while Shin Ho

³⁷ See [14, Chap. VIII] for a detailed discussion of this *tongnian* network.

Sing's side held the general managership. Shinlee Corporation came into being in July 1969. Later, Chen Maobeng's side took over much of the management of Shinlee Corporation, and hence the company has commonly been regarded as part of Chen's *guanxiqiye*, Sampo Group.³⁸ Nevertheless, as of 1987, associates of the Tainanbang hold two of four managing directorships, three of fourteen directorships, and one of five auditorships [1, p. 184]. It seems that Wu Zunxian's side became a silent partner of Chen Maobang and let the Chen family run the company.

D. *The Openness of Network*

Wu Zunxian's network outside the Tainanbang illustrates the openness of *guanxiqiye*. He maintains a wide personal network outside the *bang* and effectively utilizes it to collect information, to find new business opportunities, and to expand his investments. As Wu Zunxian's case exemplifies, leaders of large *guanxiqiye* have not hesitated to engage in partnerships with outsiders. By cross-investing in one another, Chinese entrepreneurs in Taiwan have expanded their network of partnerships.

Guanxiqiye is embedded in a much more complex network; if bananas are organized into a bunch, bunches of bananas are connected to the same tree. The Chinese *guanxiqiye*, therefore, is not an isolated and closed kingdoms of family business. Rather, it is a node in an island-wide network of corporations.³⁹

CONCLUSION

The growth pattern and organizational structure of the Tainanbang reveals two noticeable characteristics. First, business partnership is built on a foundation of personal networks, or *guanxi*. Secondly, a partnership evolves into a banana-bunch-shaped configuration of partnerships of partners; that is, *guanxiqiye*. These two features characterize not only the Tainanbang, but also many other large *guanxiqiye* in Taiwan [14].

Why do entrepreneurs in Taiwan opt for partnerships? Why *guanxiqiye* in Taiwan take the form of loosely organized business groups? In concluding this article, I would like to consider these two questions and offer a hypothesis for future study. In my opinion, Chinese culture and Taiwan's political economy provide the keys to answering the above questions.

Chinese entrepreneurs in Taiwan inherited the tradition of Chinese merchant culture. Especially important in this tradition is the principle of partnership, *hegu* or *hehuo*. The organization of partnership during the Qing period closely re-

³⁸ The 1990/91 issue of *BGT* for the first time lists Shinlee Corporation as an independent *guanxiqiye*, the Shinlee Group, separately from the Sampo Group [4, pp. 867-74]. The reason for this separation probably is that the two sons of Chen Maobang are regarded as successors to their father in Sampo Corporation and in Shinlee Corporation respectively. Nevertheless, the Shinlee and Sampo Groups are not two different *guanxiqiye*, but rather two relatively independent corporate bunches in the same *guanxiqiye*.

³⁹ For a more systematic analysis of the inter-corporate network in Taiwan, see [14, Chap. VII].

sembles the ownership and management styles of contemporary corporations.⁴⁰ More concretely, the first firm organized by the Wu family of the Tainanbang took the form of a "traditional" Chinese partnership, and many firms that grew into key corporations in the *bang* have been outgrowths of "traditional" partnerships as well.

In economic terms, Chinese-style partnership is an effective means to concentrate a limited amount of money capital held by a number of people into a single enterprise. Relying on their extensive personal networks, Chinese entrepreneurs can amass enough capital to start a business, even if their own funds are insufficient. Moreover, other resources, such as political connection or managerial skill, can also be brought together in the form of a partnership. Banana-bunch-shaped *guanxiqiye* is a product of the Chinese cultural tradition.⁴¹

Also important is the political economic conditions peculiar to Taiwan, the most significant of which is the tension between Taiwanese society and the succession of outsider regimes that have ruled the island. Neither the Japanese colonial government nor the Chinese Nationalist administration fostered the growth of local entrepreneurs. Japanese policy aimed to transform Taiwan's economy into an appendage to the Japanese economy, hence local Taiwanese business was subordinated to Japanese big business. The Chinese Nationalists, guided by their own economic and political interests, adopted a particular set of policies that reserved the uppermost sector of industrial production and financial control in the hands of "public" enterprises, and relegated private corporations to the dependent mid- to downstream sectors of industrial production.⁴² The Nationalist's tight fiscal and monetary control, in particular, made it very difficult for local Taiwanese to obtain loans from state-controlled banks.

Under such circumstances, the Taiwanese capitalists relied on their networks of *guanxi* to mobilize capital and pool them into partnerships. Without any low-interest loans from the government forthcoming, Taiwanese merchants could not but turn to one another for investment capital. This probably explains the persistence of partnerships in Taiwan. While inheriting the prototype of partnership formation from former generations, they were forced to rely on this traditional way of doing business to cope with powerful outside rulers. Political economic constraints compelled Taiwanese entrepreneurs to organize partnerships which developed into banana-bunch-shaped *guanxiqiye* configuration.

My analysis suggests that both cultural and political economic conditions were responsible for the rise and growth of *guanxiqiye*, or what I call banana-bunch-shaped business groups. However, what was the primary mover? Had Taiwanese society lacked the tradition of partnership, could *guanxiqiye* have taken the shape of a bunch of bananas? Put differently, would the same set of political economic conditions have been sufficient for the emergence of banana-bunch-shaped business groups? Had the governments on Taiwan fostered the growth of large private business as the government of the Republic of Korea did, would business groups

⁴⁰ For a more fuller discussion, see [14, Chap. I].

⁴¹ For a more systematic treatment, see [14, Chap. VI].

⁴² For a more detailed argument, see [14, Chap. II].

in Taiwan have taken the form of Korean *chaebol* or Japanese *kigyō shūdan*? In other words, had they received the support of the state, would Chinese entrepreneurs have abandoned their tradition of partnership?

Admittedly, these are all speculative questions; there is no "if" in history. Nevertheless, these are important issues to be addressed in the comparative sociology of economic development, which I would like to tackle in future research.

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