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Compradors, Firm Architecture and the 'Reinvention' of British Trading Companies

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Abstract

This paper provides a detailed analysis of the evolving relationship between the British trading company John Swire and Sons and its Chinese partners involved in the distribution of its products, notably sugar. From the nineteenth century, Swire had utilised the Chinese system of the Comprador. The article identifies various weakness of the Comprador system from a management perspective but illustrates that, despite its evident shortcomings, Swire formally continued to recognise the system until the 1930s. However, in line with Jones' notion of the adaptability of British trading companies, the paper concludes that significant changes in the corporate architecture of Swire had actually begun to be put in place from the early twentieth century. The emergence of a modern, managerially-based system of organisation in Swire before the 1930s suggests that the image of British trading companies as generally undynamic business institutions is of dubious validity.

Compradors, Firm Architecture and the ‘Reinvention’ of British Trading Companies: John Swire & Sons’ Operations in Early Twentieth Century China

Howard Cox, Huang Biao and Stuart Metcalfe

It is hard to imagine any group of enterprises whose experience more perfectly mirrors Britain’s economic history since 1800 than that of its commercial trading companies. Propelled into the international economy largely as an outcome of the forces generated by the cotton textile revolution, firms such as Jardine’s, John Swire & Sons, and James Finlay carried the mantle of Britain’s mercantile power throughout the era known as *Pax Britannica*.[1] Pre-eminent in international trade during the period from 1870 to 1914, for the most part these organisations failed to adjust to the challenges of the inter-war and post-war periods and eventually sank, along with the rest of Britain’s colonial edifice, into oblivion.

To this stark picture of rise and decline, however, has recently been added much valuable historical evidence and fresh reasoning. In a detailed reappraisal of the economic history of Britain’s trading firms, Geoffrey Jones has demonstrated that, in the case of a few of these companies, survival and renaissance - rather than decline and collapse - was the pattern that emerged, achieved through an ability to both accommodate and initiate change.[2] Of course, this is not to argue that change came easily to Britain’s trading companies, nor to deny that the majority failed to adapt and consequently perished. Much of the competitive edge held by Britain’s trading companies during their heyday accrued from the practical experience they had gathered as a result of their foreign-based operations. Location-specific knowledge of this kind possessed very little value outside of its immediate region and could quickly become redundant in the face of political upheaval or socio-economic realignments. Responding to change thus often required a process of re-evaluation and institutional reform that was inherently difficult to manage. The aim of the present paper is to consider a single example drawn from the group of trading firms who successfully 'reinvented' themselves (to use Jones' term) in order to explore this process of reform both from the point of view of the individual firm and in relation to other firms that operated within the same environment - and who thus faced the same challenges - but whose origins lay outside the mercantile sector.

Assessing analytically the process of trading companies' reform requires at the outset an appreciation of their internal and external architecture.[3] In this respect it can be generally stated that the enterprises adopted a network form of organisation.[4] Initially, and at the simplest level, this merely involved a business partnership embracing a small number of merchants who were linked, almost invariably, by ties of kinship. Even the highly complex 'business groups' that grew up during the nineteenth century retained the character of extended family-based networks and were able to raise funds for expansion without needing to compromise their grip over managerial control. Indeed, a key characteristic identified in the study by Jones is that successful reinvention by these firms was typically implemented within a governance structure that preserved family ownership and control.[5]

The family character of the trading companies was also reflected in the relationships that they developed with other business enterprises. For example, in terms of the ancillary services that they required - such as banking, shipping and insurance - whenever these functions were not performed internally they tended to be undertaken by companies with whom they enjoyed a good long-term relationship. As far as their operations abroad were concerned, individual merchant enterprises formed part of an expatriate community featuring a shared value system and joint membership of local institutions such as chambers of commerce and social clubs. In addition, the trading companies established long-standing contacts with indigenous business elites, giving them in many cases a 'quasi-local' status. These local contacts frequently provided the trading firms with an enduring source of competitive advantage. However, such reliance on trust-based relations with local firms also left the trading companies vulnerable to adverse shifts in relative bargaining strengths and opportunistic behaviour. Additionally, changes in the political or economic landscape could turn productive partnerships of this kind into liabilities. Not surprisingly, therefore, it was in relation to its external architecture that the process of reform among Britain's trading companies often tended to be most dramatic.

Nowhere were such issues more pertinent during the first half of the twentieth century than in China. The Treaty Port system and the legal regime of extraterritoriality that had developed from the mid-nineteenth century constrained the geographical expansion of foreigners' activities and, together with the language barrier, made interfacing with the Chinese economy in general extremely problematic for British trading companies. To overcome these difficulties the western firms had employed intermediaries in the form of compradors, whose role involved both the management of Chinese native employees and mediation with Chinese merchants both within and beyond the Treaty Port economies. Over time the compradors became an integral part of the Chinese operations of trading firms, but during the twentieth century - especially after the revolution of 1911 - the political position of these intermediaries became more precarious. It has been shown, for example, that firms whose principal activity lay in manufacturing or mining took advantage of the changing conditions within China to replace their compradors with managerial arrangements that facilitated more transparency and control over their Chinese staff.[6] Our purpose here is to utilise archive evidence and biographical testimony to consider how the British trading company of John Swire & Sons (JS&S) attempted to deal with the comprador question; specifically to ascertain the nature of the problems that the use of compradors engendered, how the firm dealt with them, and why a shift towards more modern managerial arrangements seem to have lagged behind those implemented by manufacturing multinationals active in China.

II

Like other trading companies operating out of Hong Kong and Shanghai, Butterfield & Swire (B&S, John Swire & Sons' Far East agent) relied heavily on their comprador in almost every aspect of business when dealing with Chinese. To understand the comprador system in Swire's, it is necessary to examine the types and functions of its compradors. First, there were general compradors, who took care of a wide range of business. The general compradors included chief compradors in the company's Hong Kong and Shanghai offices and out-port compradors in the branches in the Treaty Ports.

Among all compradors, the chief compradors in Shanghai and Hong Kong played a pivotal role in the company's business. In Butterfield & Swire's entire history, there were only five general compradors in its Shanghai office and three in its Hong Kong office (Table 1). In the early stages of the Butterfield & Swire's operation, their responsibility, according to the first Shanghai comprador Cheng Kuanying, was 'to secure shipping business, to manage godown and to load and unload cargoes.'[7] When the company introduced the sugar and dockyard businesses in 1881 and 1908 respectively, the sugar sales as well as the recruitment and supervision of the dockyard workers were also placed under the charge of the chief comprador.

Because B&S had a very diversified range of businesses, it also had several function-specific compradors. Whilst initially the general comprador was the only business assistant to the company; following the establishment of the shipping and godown departments new compradors were added to the organisation. As late as the 1920s, when the company believed that its existing compradors lacked sufficient competence to successfully develop its insurance business, it engaged an alternative Chinese native for the purpose. Thus, the Shanghai comprador Chun Shut Kai was felt by the London office of JS&S to be 'useless' where insurance was concerned and another comprador, Hsi, was appointed to deal with this line of business.[8] Although these function-specific compradors were directly responsible for certain part of the businesses, they were at the same time the assistants to the general comprador and played an integrated part in the operation of the comprador office.[9]

In relation to these different types of compradors, it is helpful to summarise the functions of the compradors as a whole. Generally speaking, the functions of the comprador could be classified as house steward, treasurer, commission agent and upcountry purchaser, although there was no particular rule limiting his specific activities.[10] These functions could be further divided into two categories based on the institutional status of the comprador: one was as managed employee while the other was as business intermediary. While acting as a house steward, the comprador was in charge of the housekeeping of a foreign firm, supervising and securing other Chinese servants in the house. As a treasurer, the duty of a comprador included receiving and taking charge of all moneys and securities for money coins, gold and silver, and bullion native bills cheques and drafts.[11] The comprador performing the functions as house steward or treasurer should be regarded as managed employee as far as his institutional status is concerned.

On the other hand, the comprador should be regarded as a business intermediary when he performed the other two functions. When he served as a commission agent, his connection to the native merchant network was the key to promoting the business of foreign firm. Although the compradors received salary from foreign firms, this was done to a large extent in order to gain protection as a foreign employee when, in fact, they were merchants conducting business on behalf of their foreign principals.[12] Another important function of the comprador, especially during the nineteenth century, was to buy Chinese produce (mainly tea and silk) from the interior. The comprador might receive funds in advance before each up-country trip and negotiate contracts with native merchants on the foreign firm's behalf. In other cases, the comprador simply acted as an independent merchant and drew up a contract with the company to supply export produce.[13]

Although a comprador was usually multi-functional, the problems arising from his employment varied according to the primary functions such employees undertook. Cox and Chan[14] noted that the employment of the comprador as an intermediary was more problematic and for many foreign companies this provided an impetus for reform. In the role of intermediary, the comprador had much more opportunity to engage in squeeze.[15] Such problems were particularly serious when the comprador was responsible for the sales or purchase of commodities. In the non-trade service sector such as shipping, insurance or banking, the frequency of embezzlement and squeeze was lower than that in the produce trade business, where the possibility of own account dealing intensified the problem.

Most of the agreements drawn up with compradors contained a clause prohibiting unauthorised own account dealing. In Swire's case, contracts typically stipulated that: 'The comprador shall be just and faithful to the Firm and shall devote all his entire time and continuous attention to their business…and shall not engage in any other calling business or pursuit or any kind of speculation without the previous consent in writing of the Firm.'[16] However, under the comprador system, there was no internal supervision mechanism through which the firm could effectively enforce such a clause. Rather, the operation of the system was based on the mutual trust between the foreign companies and their compradors. The comprador office was virtually separated from the foreign company and was thus commonly referred to as 'a business within a business'.[17] Due to the language and cultural barriers and lack of key information, the foreign companies always found they had to rely heavily on the trustworthiness of their compradors. Although almost all compradors had to be financially guaranteed by means of securities and cash deposit, this could not prevent them from squeezing or cheating if they decided to do so.

III

The problems that Swire faced in their dealings with compradors can be perfectly illustrated by reference to the firm's developing business in the sugar industry. Swire's Taikoo Sugar Refinery (TSR) was first registered in 1882, when land was purchased from the Hong Kong government at Quarry Bay, and production commenced in 1884. The capital for the venture was put up by John Samuel Swire, Holt's James Barrow, H. J. Butterfield and others.[18] John Swire & Sons in London and Butterfield & Swire in Hong Kong were appointed as joint agents for TSR until 1914 when TSR was placed under the sole management of the former.[19] JS&S,

represented by B&S in the Far East, made arrangements at outports for the purchase and sale of sugar,[20] and had their own branches acting as sub-agents in such places. In return, JS&S was paid by TSR the sum of fifteen thousand pounds per annum to cover the cost of the general conduct of the mercantile business of the latter, brokerages and commissions incurred in the purchase and sale of sugar and ten percent of TSR's remaining profit.[21]

Initially TSR faced severe competition from the earlier established sugar venture of Jardine Matheson & Co., but over time the two firms reached an accommodation[22] and up until the early 1920s JS&S earned a good return on its capital invested.[23] After this, however, difficulties began to mount as Japanese competition became increasingly destructive and the anti-British boycotts of the mid-1920s curtailed demand for Taikoo's products.

The success of the TSR up until the early 1920s should be partly attributed to the advanced production technology, which was kept strictly secret from outsiders including, notably, the company's sugar comprador.[24] By 1925 Taikoo's Hong Kong plant had been expanded into the single largest sugar refinery in the world.[25] In addition to its advanced production technology it also established a direct selling organisation upcountry, as will be explained in the following section. However, until the late-1920s, Swire's compradors continued to hold a significant position in the sugar distribution business, especially in South China which was not covered by the Swire's direct selling organisation. Swire's Shanghai management was certainly aware by the early 1920s that its compradors made a great profit out of their sugar dealing. In a letter to JS&S in London, dated November 1921, they explained that when the comprador hired coolies his profit margin was probably as high as 25 per cent although the comprador reported a margin of only 10 per cent and the company found it difficult to refute this.[26] However, the management in London seemed perfectly content, given the very high returns which were being earned by the refinery at that point, stating that 'when the refinery prospers and if Shut Kai (its Shanghai comprador) has done his share of the work to help it to prosper, there is no earthly reason why he should not prosper with it.'[27]

However, there is evidence to show that the company were not fully aware of the extent of the sharp practices that were being used by their compradors to extract 'squeeze'. In his memoir Mok Ying Kui,[28] whose father Mok Chou Cheung and brother Mok Kan Sang were both general compradors for B&S in Hong Kong, provides a detailed picture of the comprador system in Swire's. Being an assistant comprador and, from the 1930s the Chinese sugar manager, Mok's account provides much information that was not revealed in the company's archive.

According to Mok, soon after the establishment of the TSR, sugar dealing had become the biggest business in the comprador office. However, the commission income, which should be regarded as the comprador's normal profit, was only a small percentage of the total income received.[29] The largest slice of income came from *zhazha* - a Chinese word for squeeze. When the sugar market was booming, the office would buy the sugar from Taikoo under the name of different companies, and re-sell it in the market at a much higher price. When the market was slack, meanwhile, the comprador would operate only as an agent and earn commission, although sometimes he would store more inventories for future sales. The problem caused by the comprador's own account dealing could be illustrated by Mok Chou Cheung's business in Kwangtong.

Kwangtong was one of the major markets in China. Besides the sugar sold to the Cantonese sugar dealers by the comprador office in Hong Kong, a large amount of sugar supplied to Kwangtong was through the *Da Chan Zhan*, a firm set up by Mok Chou Cheung in Canton. Using the name of *Da Chan Zhan*, Mok was able to purchase sugar from TSR when the market price was low and store it for re-sale when price went up. Typically, the sugar market in Kwangtong went through a well-defined annual cycle. The period between December and March was the production period of the native sugar factories, and during this period the sugar price was low due to the excessive supplies of the native sugar. In April and May the sugar price recovered gradually after the end of the native sugar production season, normally peaking at June due to the high sugar demand for moon cake production prepared for the Mid-Autumn Festival. Then, after a small decline the sugar price would go up again in October and November, during the time when marriage ceremonies were most frequently arranged. With its special sugar go-down and storage equipment,[30] *Da Chan Zhan* was able to speculate in the sugar market and the profit derived from price fluctuation would be tens of thousands Hong Kong Dollar per transaction, compared to the normal profit of several thousands HK$ per month.[31]

Besides the finished sugar, a by-product of the sugar production—*jushui*, or sugar water, was another source of income for the comprador. *Jushui* was an important ingredient in the rice wine and soy sauce production and the demand was high in the Kwangtong area. As in the sugar business, Mok Chou Cheung supplied the *jushui* to the brewing factories through his comprador office, but also through several proxy companies on his own account, which bought the *jushui* from TSR at lower than market price and re-sold it at a significant profit. He also set up his own soy sauce factory - *Tong Li Zhan* - and utilising his position as Swire's comprador, this company was able to purchase *jushui* constantly at a very low price. Other examples of the comprador's opportunity to extract squeeze are illustrated in Mok's memoir. In the early year of TSR's operation, the Cantonese *jushui* dealers once attempted to boycott Taikoo's sugar water to force the company to cut its price. Mok, on one hand, built a storage pool in Canton with huge capacity and attacked the boycotting dealers by developing new dealer networks in that area; at the same time, he forced the company to cut the *jushui* price by 20 per cent on the grounds of the boycott. In this way, he purchased all the *jushui* at the price of 20 per cent discount and re-sold it at a high market price.

Mok Chou Cheung's other income source from the sugar business concerned the purchase of sugar bags. He established a company in Hong Kong - *Chang Ji* - which produced sugar bags with the raw materials purchased from *Shouching* and sold them to TSR at an inflated price. Interestingly, Mok Chou Cheung's son, Mok Kan Sang, who was Taikoo's comprador after 1917, was obliged to pay compensation of HK$ 250,000 to Swire's in 1929 owing to this earlier deception in the sugar bag purchase.[32] Such compensation was as a settlement to B&S's claim that Mok Kan Sang brought a damage of HK$800,000 to the company when he purchased the sugar bags above the market price between 1920-1925.[33]

According to Mok Ying Kui, his brother Mok Kan Sang made a much larger fortune out of the sugar business than his father had. Between 1917 to 1919, the first two years of Mok Kan Sang's compradorship, he built up inventories of sugar to between 80,000 - 100,000 bags (1 picul per bag).[34] When, following the end of the First World War, the European countries eased price controls on sugar the result was a tenfold rise in the sugar price. Utilising such an opportunity, Mok's profit from sugar dealing was estimated at HK$ 5-6 million.[35] Later, Mok spent more than HK$ one million on his new home at *Kon No Dou*, which was regarded as the most luxurious British-style palace in the whole of Hong Kong.[36]

The problems of squeeze by compradors in Swire's sugar business highlighted the disadvantages of the system. Overall, the comprador system was a costly arrangement for foreign companies and, as pointed by Hao, the comprador had become less of a bridge linking foreign businesses to the Chinese economy and more of a barrier to deeper Sino-foreign business interaction by the 1890s.[37] Moreover, the problems involved were most serious in the produce trade business due to the high likelihood of own account dealing. Thus when the increasing importance of the sugar business drew Swire's attention to the problems of the old system, it was obliged to consider its reformation.

IV

As the drawbacks of the comprador system became more and more evident, many foreign companies began to devise alternative systems of intermediation with the Chinese. By 1899, the Japanese Mitsui Company had dispensed with its compradors and, instead, trained their own staff in Chinese language skills. By using these staff in their transactions with Chinese merchants, they were able to capture a large share of the textiles market in China after 1900.[38] In the early twentieth century, the local subsidiaries of the emerging Western multinational companies led the way in dispensing with the services of compradors. Companies such as British American Tobacco and Standard Oil established nation-wide sales system to distribute their products.[39] In contrast, the trading companies remained wedded to their compradors throughout the 1920s, and in many cases beyond.[40] What it is important to recognise, however, is that within Swire a process of reform had effectively begun during the early years of the twentieth century. Taking the path of least resistance, Swire began to implement a system of distribution for their sugar products which displayed many common features with those of the more modern multinational corporations operating in China. The difference lay more in the pace and magnitude of the changes rather than in the form that they took.

As previously discussed, the compradors' role as intermediaries in the produce trade business was most problematic for the Western companies. In Swire's case, the sugar business was an area where the compradors' squeeze was common place. Not surprisingly, it was in this area that the company first introduced a direct selling system in 1906, at the time when many MNCs were beginning similar programmes. However, the introduction of the new system should be regarded as an experiment, which was originally confined to Manchuria. In July 1906, two main agencies in Moukden and Tiehling in the Newchwang Territory were established,[41] which marked the beginning of what became known as the 'Manchuria system' of distribution. Unlike the traditional methods of selling through the sugar dealers in the Treaty Ports, 'who played Swire's off against the Japanese to gain the best advantage for themselves',[42] the new system allowed the company to appoint agencies on commission basis who were constrained to sell Taikoo sugar only. Besides the direct appointment of the agencies, the new system also involved periodical inspection of the agencies by European staff.

Increasingly effective Japanese competition was one of the main forces that drove Swire to conduct such an experiment. In 1906, in one of his private letters to London, D. R. Law, B&S's Hong Kong manager, stated that the Japanese competition had a 'disturbing influence' in the Chinese market and the 'sugar position generally is not at all healthy in this part of the world.'[43] Due to the enormous Japanese influence in Manchuria, Swire was obliged to establish a new selling system there to retain its competitive position. Such a system had two advantages. First, since the sugar was directly sold to the agents, the company was able to bring down distribution costs by circumventing the middleman's profit; second, with its own up-country agencies, the dependence on cliques of Chinese dealers could be avoided.[44] The initial experiment was undoubtedly a success: the number of agencies in Manchuria increased to 15 in 1910 while the total sugar stock taken by them increased from 26,507 piculs in 1908 to 64,767 piculs in 1910.[45]

The success of the Manchuria system inspired Swire's to extend its application to other parts of China. This is clearly demonstrated in a letter from Swire's London office to B&S Hong Kong in 1910. 'Looking to the future all of us here feel convinced that it will be advisable, in the interests of the Refinery, to bring the Manchurian system into work as soon as possible in all parts of China, pushing our stuff through local agents and by regular foreign inspection keeping the run of what is doing.' It then went on, 'we could not cover all the Empire with Taikoo agencies but we could well establish them in all leading marts of the populous parts exactly as has been successfully done in Manchuria.'[46] Swire's immediate plan was to apply the Manchuria System to the district along the Lu-Han Railway, which led to the opening of three agencies in the Tientsin Territory in the following year.[47]

The development of the upcountry selling organisation was gradual but relentless. In the 1910s Swire saw the number of its sugar agencies increased significantly. The merchants who were chosen as up-country representatives (agents) were usually the native *hong*, that had previously dealt in sugar or who already held a foreign agency in goods such as oil or tobacco. The company undertook to lay down the sugar in the agency godown, and all expenses thereafter were for the agent's account.[48] The expansion of the agency network continued in the first half of 1920s, until the up-country selling organisation reached its peak in 1924. According to its internal records, in 1924 Swire's had a total of 199 main agencies and 109 sub agencies located in 14 Chinese territories.[49]

The company provided credit to the agents, although the credit terms in general were shorter than those customarily extended by one Chinese merchant to another.[50] As a result, the financial standing of the prospective agent needed to be of a high order in the company's view and cash deposit or guarantor bonds were required. Any proposal to open a new centre had to be fully reported upon by an Inspector on the special Preliminary Report form. The company also felt that 'it is extremely important that remittance of the proceeds due be carefully watched, as experience has proved that Agents do not hesitate to use in their own trading ventures funds which should be remitted'.[51] In order to check the unsold stocks and proceeds outstanding, and to watch the financial standing of its agents, Swire's developed a system of regular visits by an inspector of the company. The objective of the periodic inspection was also to keep close control of the business, investigate the market condition and to watch the general trend of trade in the district. The company employed inspection staff on a territory basis. There were a maximum 14 foreign inspectors and 13 interpreters in total, allocated in 7 regions (Table 2).[52] Also, the company summarised and standardised the inspection instruction and set the target frequency of visits at three per annum. In this way, foreign inspection became an effective system within the up-country selling organisation.

The introduction of these supervisory systems, together with the direct appointment of agents, enabled the company to distribute its products in the vast Chinese market effectively and economically. The amount of sugar taken and distributed by the upcountry agents increased dramatically until the first half of 1920s. Figure 1 shows the total amount of sugar stock taken by all the company's upcountry agents from 1908 to 1928. The dramatic expansion of the upcountry selling organisation is evident. In 1908, all Swire's agents had been located in the Newchwang Territories and their sugar offtake was only 26,507 piculs, but by 1922 the company had more than 300 agents located across most parts of China, who received stocks of sugar in excess of 1 million piculs.[53]

The establishment of the up-country selling organisation meant that by the mid 1920s Taikoo sugar was marketed in China through two separate, but in some respects parallel, systems. In Kwangtong and Kwangsi provinces of South China, where no direct selling agencies were appointed, sugar sales were left exclusively in the charge of Swire's Hong Kong comprador, the Mok family. Elsewhere, although Mok continued to play a role in the distribution of Taikoo sugar,[54] this was limited largely to acting as financial guarantors of the upcountry agents, in contrast to their traditional role as business intermediaries.[55]

The gradual nature of the reformation program of the old comprador system was shown in other parts of the sugar business. Besides its traditional product of refined sugar, Swire's introduced a new product called carton candy in 1922. Although still relying on the compradors' service, concern about their malpractice was evident. In one correspondence, JS&S instructed its Far East agent B&S: 'in order to avoid 'squeeze' and irregularities we consider that it is essential that, wherever the packing is done, we should keep it under our own direct control. Similarly as regards selling you should retain the control and not delegate this entirely to the Comprador.'[56]

Consequently, the company attempted to introduce several safeguards to improve supervision and to prevent the comprador from obtaining squeeze. First, B&S in Hong Kong sought to fix the product's retail price and to have the price marked on the cartons as a safeguard. In a letter to London it noted that the 'Chinese are not going to pay 11 cents for what is marked 10 cents on the package, therefore we do not think, provided the price to distributors in the first instance leaves a fair margin of profit, that there can be much opportunity for squeeze'.[57] Swire's head office concurred, pointing out that 'it should always be a condition of all sales to distributors that the retail price per carton must not exceed the price marked thereon, so that you can enforce observance of the condition if you discover that it is not observed.'[58]

Second, the company attempted to develop a mechanism of European supervision, especially for the packing of the carton candy. Swire's London office felt that the business should from the start be understood to be controlled by the Refinery and European supervision would be a necessity.[59] This idea initially received opposition from Butterfield and Swire in China. B&S (Hong Kong) wrote to the company's branch in Shanghai stating that 'this of course cannot be arranged for by our regular B&S sugar staff, even if we had the men to spare, as it is hardly work that could be delegated to them... Our feeling is that Shut Kai should be "given his hand".'[60] However, under pressure from the London office B&S in a later correspondence agreed that 'this [packing] presents no difficulties here and could easily be supervised by our present staff.'[61]

The third measure that the company took was to introduce a new remuneration system for the comprador in the carton candy business. Traditionally, the comprador received his commission on the basis of gross sales revenue. However, in the carton candy business, the comprador to some extent acted as the company's local partner and was remunerated by 25 per cent percent of the net profit.[62] The comprador bought the sugar candy from TSR at current price and arranged for packing and selling (under European supervision). As a result, it was the best interest of the company to have him work on a percentage of the net profit, rather than on the value of sales, so as to have his co-operation in keeping down cost and to reduce the incentive for squeeze.[63]

In effect, the carton candy business operated like a joint venture between TSR and its comprador. The company provided premises at Watung and supplied candy for packing while Shut Kai, its Shanghai comprador recruited foreman and workers to carry out the actual packing work. Both of them worked closely on the design of the carton, the determination of the size of the package and the price of the product; the net profit allocated between them was 75 per cent and 25 per cent respectively.[64]

As with other sugar products, carton candy was also sold through both of the comprador and Swire's upcountry agent. At the beginning, B&S in Hong Kong expected that 'in addition to the numerous boys he would employ at street corners, railway stations, etc, Shut Kai would also arrange with several shops, or distributors, to handle these cartons and sell to the hawker class.'[65] Nevertheless, at the later stage almost all 300 of Swire's upcountry agent handled the sales of carton candy, but it is not clear how much stock the agents took in total.[66]

The parallel systems of comprador and direct selling worked quite well for Swire. Although the company continued to rely on its comprador's service until early 1930s, the establishment of an upcountry selling organisation as well as the introduction of a more effective monitoring and incentive mechanism significantly increased its competitiveness in the sugar market. In contrast to its rival, the China Sugar Refinery Co. of Jardine Matheson that went into liquidation in 1928, TSR was able to weather the market disorder, political disturbance and cut-throat Japanese competition in the 1920s.[67]

V

In the produce trade business where the comprador's service proved to be most problematic, Swire's was able to establish an alternative distribution system without much resistance from their compradors. The problem of 'squeeze', although unavoidable, was therefore diluted. On the other hand, the reformation of the comprador's system in other areas of Swire's business only began later and the compradors still played a prominent role in activities such as shipping, warehousing and insurance throughout the 1920s. In fact, as late as 1928 there is evidence to indicate that Swire's still viewed compradors as the mainstay of their Chinese business system. Although it was recognised that 'as the emancipation of China proceeds, the old order of things will pass, and quite possibly the comprador system with it', certain sentiments within the company still reflected the view that 'for the time being, the modern Western-educated Chinese have yet to prove themselves substantial men of business'.[68]

Nevertheless, during the late 1920s Swire's did begin to bring more Western-educated Chinese into its organisation, heralding the formal abolition of the comprador system in the following decade. The direct employment of Chinese managerial staff was first introduced in the insurance business, where salesmen with a degree of professional knowledge were required. The experience was prompted by the study of the methods of some American companies, whose competition seriously challenged Swire's position in the insurance market.[69] These American insurance companies did not work through the conventional comprador and agent type of arrangement, but through foreign educated Chinese who were members of their own staff, and held titles such as Branch or Departmental Manager. Swire's management recognised that the old comprador type 'could not stand up to the youngsters when it came to actively seeking business' and under the new arrangement, 'a close(r) watch could possibly be kept on 'squeeze' than would ever be practicable with compradors and agents.'[70] Consequently, in late 1920s, the company sought to 'employ on our staff foreign educated youngsters who, after some training, are placed in charge of developing Chinese business, rather than try to introduce men as Insurance Compradors.'[71]

In 1928, Butterfield and Swire (Shanghai) brought its Tientsin insurance comprador's son into the insurance office for training; a move that was actively encouraged by Swire's London office. B&S was advised to repeat this process with junior members of the Chinese outport staffs, who showed signs of keenness and aptitude for the insurance work.[72] These trained men were to be treated as 'Chinese members of the Insurance Department - not as members of the comprador's staff or the ordinary Chinese staff or as brokers - who are posted to ports, just as the foreign members are.'[73] Moreover, with the wider employment of Chinese, the company proposed the following possible development:[74]

a) A Chief Chinese Inspector whose function would be to control the business getting organisation, visiting Chinese agents all over the country, either in company with a foreigner or otherwise;

b) Chinese District Inspectors made up of men trained in the insurance department, and having a seat in an agent's *hong* at some particular point, and responsible for two or three towns in the neighbourhood.

The Chief and District Inspector were to be placed in Shanghai and the Main ports respectively. These staff were young Chinese of good standing and education, with proper training from the company and receiving good salary.[75] In this way, the company sought to command a larger share of business than the comprador's departments and their up-country agents were able to procure and to remain firmly established and prominent in every respect as the largest insurance interests in the country.[76]

At the same time, the company gradually reclaimed sensitive areas of business from the compradors' control as another part of its reformation scheme. The responsibility of Butterfield and Swire's comprador office in Hong Kong reflected this point. After B&S (Hong Kong) claimed a compensation of HK$ 800,000 against its comprador Mok Kan Sang in 1928, the company significantly cut down the business in the charge of its Hong Kong comprador office.[77] Before the case, almost all the businesses were conducted by this office. However, after several adjustments, the businesses remaining under the comprador office's charge was only the marine insurance, the warehouse of the CNCo and part of the sugar business.[78] As far as the sugar distribution is concerned, the geographic area that the office served was significantly reduced. Before 1930, Swire's comprador office in Hong Kong supplied sugar to the market in the China mainland together with the company's other local branches; after 1930, it was prohibited to directly sell to the North China market and its remaining market area was only two provinces: Kwangtong and Kwansi.

The establishment of the up-country sales organisation, the employment of Western-educated Chinese and the reduction of reliance on compradors laid down the foundation for the complete abolition of the comprador system. In 1931, when Butterfield and Swire's Hong Kong comprador Mok Kan Sang resigned from his position, the company accepted it without much hesitation and disbanded the comprador office in Hong Kong. His brother, Mok Yinkui, was subsequently appointed as Chinese manager in B&S's sugar department.[79] Thereafter, Swire's started to appoint more of its former compradors as Chinese managers and to embrace them into the managerial hierarchy. From the record of the compradors' security bonds for the period of 1904-1941,[80] it can be seen that the first four Chinese managers in Mainland China were appointed in 1932. They were Hankow godown manager Yang Che Kiang, Tientsin godown manager Li Hao Chuen, insurance comprador Hsi San Fang and shipping manager Lo Yew Ting. When Swire's reformed its comprador system into a Chinese manager system during the 1930s, there were strong continuities between the two. For example, the contracts of the comprador and the Chinese managers had great similarity, however, one major difference was that while compradors had to make full compensation to Swire's if their customers did not fulfil their obligations, the Chinese manager's responsibility was only 'to mediate whole-heartedly'.[81] In this sense, the reformation was incomplete and some have argued that the only motive for such change was to give these staff 'face' with their countrymen.[82]

Nevertheless, by appointing the compradors as Chinese managers and placing them within the company hierarchy, the company was able to secure more effective control over their activities. Moreover, there was a fundamental change concerning the status of the Chinese employee, which differentiated the two systems. While under the comprador system all Chinese employees were employed and controlled by the comprador, under the new system they were employed directly by Swire.[83] Such an arrangement enabled the company to directly control its staff and thus disband the comprador office as an independent kingdom. After mid-1930s, no more compradors were appointed and the former compradors were gradually integrated into the company's management structure. By doing so, Swire's was able to smoothly replace the old comprador system by a Chinese Managers system.

Generally speaking, the gradual reforming model adopted by Swire's had two advantages. First, there was less friction in the gradual reformation process compared to the 'big bang' model since there was less opposition from the compradors and it gave the old-style Chinese merchants time for adaptation. Second, less financial and human resources were required since the company could continue to utilise the existing organisation and its compradors' business ability; while in the case of MNCs, to replace the compradors' personal contact by a nation-wide sales hierarchy demanded much more intensive investment. Although the radical reform carried out by MNCs, backed by enormous financial investment, provided them with satisfactory achievement, the gradual reform undertaken by Swire's also enabled it to operate in a modern institutional setting and to compete more effectively in the Chinese market.

VI

The comprador system can be seen to have constituted a much more deeply ingrained element in the evolution of the nineteenth century British trading firms than it did in the more modern forms of international business enterprise that came to the fore in China during the twentieth century. This fact has helped to support a view that firms such as Swire were reluctant to jettison the system despite its evident shortcomings, reinforcing the idea that trading firms in general were less dynamic than the newly-emerging multinational corporations.[84]

In fact, a detailed study of Swire's approach to the comprador issue after 1900 reveals a far more complex picture. Whilst it is true that the comprador system was formally retained until the decision to abolish the offices in Hong Kong and Shanghai in the early 1930s, it would certainly not be accurate to portray this as a policy of inaction. As early as 1906 a system of distribution began to be set up for the company's sugar business based on sole agency contracts with independent Chinese merchants. Pioneered by Swire in Manchuria - where the writ of the traditional comprador was weakest - this direct sales system was further extended between 1915 and 1924 to cover much of mainland China outside of the southernmost provinces. As such, it provided the Taikoo refinery in Hong Kong with a method of distribution that was in many respects similar to that developed by the thrusting multinational companies of Britain and America.

The introduction of a system of Chinese agents certainly reduced Swire's reliance on its compradors in terms of its sugar business, and helped to provide a period of very rapid growth in sales. However, the boycotts and political turmoil of the second half of the 1920s, along with rapidly growing competition from Japanese producers, badly affected the financial performance of Swire's agency system. The decision to concentrate its refining capacity in a single location - Hong Kong - exacerbated the difficulties of economic and political dislocation that undermined its up-country sales structure after 1925. In 1927 the company felt it had no alternative but to close down its refinery and by late 1928 the company had curtailed all of its agency contracts. When the refinery was eventually reopened in 1929, Swire was forced to revert to the comprador networks in a bid to maintain a market for its products, which it did by appointing the leading compradors as sugar managers. However, its problems were compounded when the Nationalist government introduced a tariff on imported sugar products in 1931 since Hong Kong lay outside the boundary circumscribed by the duty. Thereafter, Taikoo looked increasingly outside of China for a market for its sugar.

By this time, however, Swire had experimented with a variety of alternative methods aimed at overcoming the problems generated by the operation of the comprador system. In the carton candy business, improved forms of monitoring, accountability and remuneration had been introduced to the combat the age-old problem of squeeze. In this, and in its other activities such as insurance and shipping, the company gradually began to revise the nature of Anglo-Chinese business relations into more integrated forms. The ultimate shift in corporate culture, therefore, can thus been seen as the appointment of Chinese managers and the final abolition of the offices of the comprador during the first few years of the 1930s. Hence, by the time of the Second World War, Swire had gone a long way towards transforming both its internal and external architecture through the development more modern, managerially-based system of organisation. To be sure, those changes crystallised during the 1930s; but this was the culmination of a process of gradual reform whose origins should been seen as beginning no less than a quarter of a century earlier.

Table 1. General Compradors in Swire, 1870-1949

Shanghai		Hong Kong	
Comprador	period	comprador	period
Cheng Kuan Ying	1873-1881	Mok See Yong	1870-1879
Yang Kui Shan	1882-1884	Mok Chou Cheung	1879-1917
Chun Koo Leong	1884-1920	Mok Kan Sang	1917-1931
Chun Shut Kai	1920-1935		
Chun Kult Cho[1]	1935-1949		

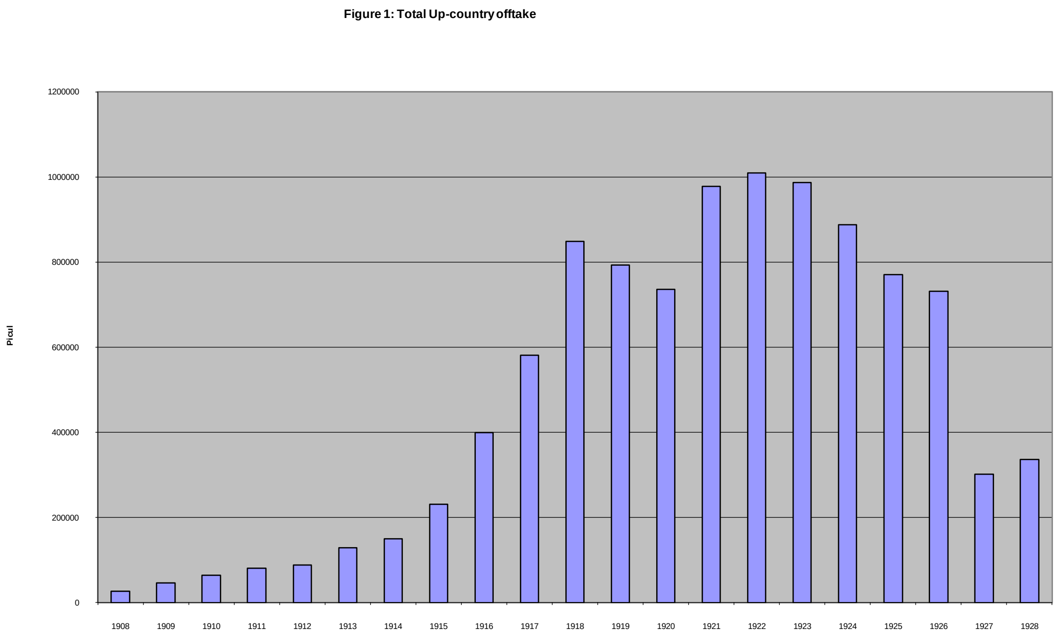
(Source: Zhang et al, *Swire Group*, pp. 153, 55)

[1] Chun Kult Cho operated under the title of godown manager after 1937 (Swire papers, JSSI 8/3, Agreement between Chun Kult Cho and B&S, 1/1/1937)

Table 2. Sugar Inspector in TSR's up-country selling organisation

A chief inspector, based on Shanghai			
Territories	foreign inspectors	interpretors	H. Q.
shanghai Ningbo	two	two	Shanghai
Nanking Chekiang	two	two	Nanking
Wuhu	one	one	Wuhu
Kiukiang	one	one	Kiukiang
Hankow Changsha	three	three	Hankow
Tientsin Tsingtao Chefoo	three	three	Tientsin
Manchuria	one	one	harbin

(Source: JSSV 6/3, 14/8/29, TSR up country selling organisation)



(Source: JSSV 6/3, 14/8/29, Statement III, list of Agencies)

Figure 1: John Swire & Sons' Total Up-country Offtake of Sugar, 1908-28 (Piculs)

[1] For individual corporate histories on Jardine's see M. Keswick (ed.), *The Thistle and*
[2] G. Jones, *Merchants to Multinationals: British Trading Companies in the Nineteenth and Twentieth Centuries* (Oxford, 2000).

[3] On the concept of internal and external architecture see J. Kay, *Foundations of Corporate Success* (Oxford, 1993).

[4] For a discussion of business networks see M. Casson, *Information and Organization: A New Perspective on the Theory of the Firm* (Oxford, 1997), pp. 117-45.

[5] Jones, *Merchants to Multinationals*, p. 352.

[6] H. Cox and K.Y. Chan, 'The Changing Nature of Sino-Foreign Business Relationships, 1842-1941', *Asia Pacific Business Review*, Vol. 7 (2000), pp. 93-110.

[7] Cited by D. Xia, (ed.) *Zheng guanying Ji [A Biography of Cheng Kuan Ying]*, (Shanghai, 1989), p. 939.

[8] Swire papers, JSSII 2/7, JS&S to B&S (Hong Kong), Extract from staff letter 11 May 1928

[9] Zhang et al, *Swire Group in Old China*, p.153. [Page reference is to Chinese version].

[10] See Y. Hao, *The Comprador in Nineteenth Century China: Bridge between East and West* (Cambridge, MA,1970), pp. 64-88 for a further discussion.

[11] Under the specific terms of agreement the comprador was responsible for the handling of "all money coins and gold and silver and other security for money sycee and treasure." JSSI 8/3, comprador agreement between Mok Kan Sang, Mok Ying Chow and John Swire & Sons, 6 May 1930.

[12] British Consular Trade Report 1869-71, cited in S. Wang, *Mai ban zhi du de xing cheng [The Origin of the Comprador System]* (Beijing, 1990), p. 162.

[13] In Swire's case, the comprador's function as up-country purchaser became insignificant after the formation of CNCo in 1872 as the emphasis of the business shifted.

[14] Cox and Chan, 'Changing Nature', p. 96.

[15] "Squeeze" means "creaming off" here. The practice of "squeeze" varied. For example, the comprador may simply quote a higher purchase price in the up-country purchasing business, while he may set up a proxy company and sell his principal's goods to such company at a lower price when acting as a selling agent.

[16] JSSI 8/3, Comprador Agreement between B&S and Chu Chin Chi, 16 Sept. 1912

[17] Hao, *Comprador*, p. 166.

[18] Marriner and Hyde, *The Senior*.

[19] JSSV6/2, JS&S letters to JS&S, 28 Jan. 1914

[20] Sugar cane was mainly purchased from Java while the markets for sugar product included China, Japan and Australia.

[21] JSSV6/7, Agreement between TSR and JS&S (altering the terms of the Agreement dated 27 Jan. 1893 and that of 27 Jan. 1914), 13 Jan. 1933.

[22] This appears to have lasted until around 1911, after which TSR argued that the increased threat from Japanese competition made the arrangement unhelpful. S. Sugiyama, 'A British Trading Firm in the Far East: John Swire & Sons, 1867-1914' in S. Yonekawa and H. Yoshihara, *Business History of General Trading Companies*, (Tokyo, 1987), p. 191.

[23] Jones, *Merchants to Multinationals*, p. 302.

[24] Y. Mok, *Mo shi jia zhu [The Mok family]*, (Shanghai,1989), p. 163.

[25] E. Hook (comp.) *A guide to the papers of John Swire and Sons Ltd*, (London, 1977).

[26] JSSII2/1, B&S (Shanghai) to JS&S, 4 November 1921.

[27] JSSII2/1, JS&S to B&S (Shanghai), 5 January 1922.

[28] Mok, *Mo shi jia zhu*. Note that, despite the date of publication being 1989, the memoir itself was written in 1965.

[29] Mok recorded the figure as 0.6 per cent, which seems a bit unusual. Ibid, p. 140.

[30] Environmental conditions required for storage of sugar are costly to control.

[31] Mok, *Mo shi jia zhu*, p. 141.

[32] Zhang et al, *Swire Group*, p. 156.

[33] Mok, *Mo shi jia zhu*, p. 160.

[34] 1 picul (a standard measure of weight in China) is approximately equal to 60 kilos

[35] Zhang et al, *Swire Group*, p. 156.

[36] Mok, *Mo shi jia zhu*, p. 160.

[37] Hao, *Comprador*, pp. 11-12.

[38] S. Cochran, ‘Japan’s Capture of China’s Market for Imported Cotton Textiles before World War I: The Role of Mitsui Trading Company’, Second Conference on Modern Chinese Economic History, (Taipei, 1989).

[39] S. Cochran, *Encountering Chinese Networks: Western, Japanese and Chinese Corporations in China, 1880-1937*, (Berkeley, 2000), pp. 12-69.

[40] For example, Jardine Matheson did not formally abolish their comprador in Hong Kong until 1950 while Harrisons & Crosfield’s Singapore office still employed a Chinese comprador through 1950s and 1960s. See Jones, *Merchants to*

Multinationals, p. 223.

[41] JSSV 6/3, TSR Up Country Selling Organisation, Statement III, list of Agencies, Sheet III & IV, 14 Aug. 1929.

[42] Jones, *Merchants to Multinationals*, p. 302.

[43] JSSI 2/10, D. R. Law (Hong Kong) to Mr. Scott (London), 21 Nov. 1906.

[44] Sugiyama, 'British Trading Firm', n. 54, p. 201.

[45] JSSV 6/3, TSR Up Country Selling Organisation, Statement III, list of Agencies, 14 Aug. 1929.

[46] JSSI 1/15, J. Scott to H. W. Robertson, 12 Feb. 1910.

[47] JSSV 6/3, TSR Up Country Selling Organisation, Statement III, list of Agencies, 14 Aug. 1929.

[48] Ibid.

[49] Ibid. Statement III, list of Agencies

[50] Ibid. Swire's credit term to its agents was usually 15 days.

[51] Ibid.

[52] Ibid.

[53] The amount was calculated by summing up the total sugar offtake in each of Swire's 14 Territories. In most Territories the statistics started from 1914 or 1915 although some may have agencies opened before that time.

[54] Mok, *Mo shi jia zhu*, p. 161.

[55] As was stated in the company's organisational paper, the comprador's commission (1 per cent on the net proceeds of upcountry sales) was for guarantee purposes and was payable irrespective of the nature of the disposal of consignments. JSSV 6/3, TSR: upcountry selling organisation, 14 Aug. 1929.

[56] JSSV 1/1 JS&S to B&S, 16 Feb. 1922.

[57] JSSV 1/1 B&S to JS&S, 24 Mar. 1922.

[58] JSSV 1/1 JS&S to B&S, 4 May 1922.

[59] Ibid.

[60] JSSV 1/1 copy correspondence, Hong Kong/Shanghai, 20 March 1922. Note that Shut Kai was Swire's Shanghai comprador.

[61] JSSV1/1, B&S to JS&S, 14 Apr. 1922.

[62] JSSV1/1 copy correspondence, Hong Kong/Shanghai, 6 Jan. 1922.

[63] JSSV1/1 copy correspondence, Shanghai/Hong Kong, 23 Dec. 1921.

[64] JSSV1/1 B&S to JS&S, 4 Aug. 1922, enclosed report on carton candy

[65] JSSV 1/1 copy correspondence, Hong Kong/Shanghai, 20 Mar. 1922.

[66] JSSV 6/3, TSR Up Country Selling Organisation, Statement III, list of Agencies, 14 Aug. 1929.

[67] However, TSR still incurred substantial losses in 1927 and 1928 and it was closed between 1927 and 1929. Jones, *Merchants to Multinationals*, p. 303.

[68] JSSII 2/7 B&S (Shanghai) to JS&S, 15 June 1928.

[69] JSSII 2/7 B&S (Hong Kong) to B&S (Shanghai), 31 May 1928.

[70] Ibid.

[71] Ibid.

[72] JSSII, JS&S to B&S, 27 Apr. 1928.

[73] Ibid.

[74] JSSII 2/7 B&S (Shanghai) to JS&S, 15 June 1928.

[75] JSSII 2/7 B&S (Hong Kong) to B&S (Shanghai), 31 May 1928.

[76] JSSII 2/7 B&S (Shanghai) to B&S (Hong Kong), 15 Feb. 1928.

[77] Mok, *Mo shi jia zhu*, pp. 160-1.

[78] Zhang et al, *Swire Group*, p. 156. [Page reference is to Chinese version].

[79] Mok, *Mo shi jia zhu*, p. 161.

[80] Swire Archives stored in Qingdao Wharf Bureau, *Taikoo Chao Dan*, H-1-6: cf. Zhang et al, *Swire Group*, Appendix 5.

[81] Jones, *Merchants to Multinationals*, p. 223.

[82] JSSII 2/7 B&S (Hong Kong) to B&S (Shanghai), 31 May 1928; Bickers, *Britain in China: Community, Culture and Colonialism 1900-1949*, (Manchester, 1999), p. 183.

[83] Zhang et al, *Swire Group*, p. 168. [Page reference is to Chinese version].

[84] Bickers, *Britain in China*, pp. 173-95.