

Editor's Note: This handout is to be used with Juanjuan Peng, "Twentieth-Century Chinese Entrepreneurs before 1949: Literature Excerpts for the Classroom" from the winter 2019 issue of *Education About Asia* beginning on p.11.

Handout C: Excerpt from The Lius of Shanghai by Sherman Cochran and Andrew Hsieh

Introduction: Liu Hongsheng (1888-1952), was a prominent Shanghai businessman in the early twentieth century, whose investments involved many different industries such as coal mining, match manufacturing, woolen textile production, cement manufacturing, and commercial wharves. To support his business empire, he and his wife raised twelve children, nine of who were boys, and sent all of them overseas for higher education. During the Second Sino-Japanese War (1937-1945), he left Shanghai for seven years and allowed his four oldest sons, who just came back from abroad, to manage the family business as top executives. Although he still retained the ultimate authority and tried to supervise his sons from Hong Kong, Liu sometimes had difficulties persuading his sons to take his advice.

In late June 1938, a year after the Japanese military invasion of China, Father fled Shanghai. . . . By then, he had lost control of parts of his business (his match mills, cement plant, enamel factory, and wharves) because these had been seized by the Japanese forces under their occupation of Shanghai. But he still retained control over a considerable amount of property (his eight-story headquarters building, bank, insurance firm, and real estate agency) because these were located in the British-dominated International Settlement, which the Japanese left untouched until December 1941 . . . With his family and these assets in Shanghai, he had good personal and professional reasons to remain in his hometown.

Father left his family and his family firm behind and fled Shanghai because he was afraid of being assassinated by combatants on both sides of the Sino-Japanese War . . .

. . . while not relinquishing his authority over the family firm, he took steps to shift it all into his sons' hands in the event of his death. Within a week of his arrival in Hong Kong, he sent his sons in Shanghai legal documents that would, if necessary, grant them power of attorney. As he wrote in a cover note to Eldest Son and his other sons on July 6, 1938, "I have signed twelve copies of powers of attorney & witnessed by two friends. I did it simply against any emergency. Nobody can be too careful. Please keep them locked & only use them when it is necessary." Although straight-forward and matter-of-fact, Father's handwritten note was a grim reminder that "any emergency" might well include an attempt to assassinate him. Even if he were to die, he believed that the family firm would live on because his sons had become mature adults and potential leaders. As he wrote from Hong Kong to Fourth Son in Shanghai on September 24: "I have grown up sons, whose minds have developed & matured, therefore I am always ready to take your opinions into consideration. In fact I have more faith in you boys than anybody else including myself."

If, as he claimed, Father really did have greater faith in his sons than himself, this faith was severely tested during the war. Within the first year after Father had fled to Hong Kong, he clashed with Eldest Son over the handling of the family firm's finances in Shanghai. In May 1937, just two years after Eldest Son had returned from his studies at Harvard and the University of Pennsylvania and only a few months before the war broke out, Father had appointed Eldest Son as the general overseer and head of Liu Hong Ji, the family's accounts office. In Eldest Son's first year at this post, Father had closely supervised him both in person and indirectly through senior managers whom Father assigned to work with him. But after Father left for Hong Kong, Eldest Son did not heed his warnings or follow his senior managers' advice as closely as he had when Father was in Shanghai. Instead, he began appropriating funds from Liu Hong Ji for real estate speculation and making decisions on his own.

When Eldest Son first neglected to consult Father about financial decisions, Father tried to reason with him. In April 1939, less than a year after Father had left Shanghai, he became annoyed with Eldest Son for putting the Liu family home up for sale without mentioning it to him, and he mildly chastised him and his brothers for it. Explaining to them that he had learned what they had done from the buyer, whom he had met by chance on a business trip, Father wrote from Hong Kong to his sons in Shanghai on April 23: "I didn't have any idea of this until he told me this time. I hope you can let me know of things like this next time before they are put into effect." But Eldest Son and his brothers did not take this admonition to heart.

In June, Eldest Son made another financial decision without considering advice from Father and the business's senior managers, and this time Father lost his temper. Eldest Son made the mistake of keeping Liu Hong Ji's funds largely in Chinese currency and buying only US\$10,000 in foreign currency just before the value of Chinese currency suddenly dropped. Other senior managers of the family's businesses, notably Xu Shihao, a lawyer and accountant at the Lius' Great China Match Company in Shanghai, had followed Father's orders to buy large amounts of foreign currency and had made substantial financial gains . . . But Eldest Son and his brothers had gone their own way, bought too little foreign currency, and suffered heavy losses.

When Father learned that his sons had ignored his advice on currency exchange, he came down hard on them. Barely containing his anger, he reminded them that he had deliberately loosened their leash and allowed them to play a greater role in the decision-making process in Shanghai during his year in Hong Kong. Now, he declared, he would no longer grant them such latitude. "You are aware," he wrote to his sons on June 25, "that in spite of the complexities in the affairs of my various companies in Shanghai, all along I have been endeavoring to keep things as quiet as possible, at least on the surface, by [the] method of compromise. Circumstances have convinced me however that I have now to take a more firm attitude."

In these unequivocal words, Father ordered Eldest Son and his other sons to relinquish their authority over financial decision making to Xu Shihao. "Whatever development may come in future," Father told them, "Mr. Hsu [Xu] will have full power to deal with it as he likes." His sons, by contrast, were to play a strictly subordinate role. "I cannot emphasize to you too strongly," Father told them, "that in all matters you should listen to his advice and not be too independent and do things on your own account. It is my wish that in case of any difference in opinions Mr. Hsu's views shall prevail."

. . . In light of their financial losses, Eldest Son and his brothers could not deny that they had failed in this case. In fact, Third Son admitted in a letter to his brothers that Father was right about the mistakes they had made. At the time of Father's tirade against them, Third son was working with him in Hong Kong, and after hearing Father's complaints in person, he conveyed them to his brothers in Shanghai. "This time," he wrote, implicitly reminding them that it was not the first time, "Father is really justified in making his complaint as he has been asking us to buy foreign currency all the time and we did not carry out his instructions. From now on I hope you will read his letters carefully and give a little thought to his instructions."

In making this criticism and recommendation, Third Son took his share of the blame, acknowledging that he, along with his brothers, had been wrong not to take Father's advice seriously. "Please," he told them, "do not think that I am shifting the blame on you. In fact I was in Shanghai myself at the time when his letters came and consider myself equally responsible. I think the practice of passing father's letters along is not very good. Next time if he gives any specific instructions we must," he emphasized, "consider what action we should take." But even as Third Son took the blame in this case and proposed to his brothers that they should be more attentive in the future, it is notable that he assumed that he, Eldest Son, and his other brothers would continue to hold ultimate decision-making authority in their own hands, as he implied in saying that they would be the ones to "consider what action we should take." Despite the bad outcome in this one case in 1939, Third son and his brothers had no intention of relinquishing their newly acquired authority in the family business at Shanghai for the foreseeable future.

Discussion Questions:

1. In 1937, when Eldest Son was appointed as the general overseer and head of the family's accounts office, he was only twenty-eight with barely two years of real-world business experience. In subsequent years, the four older sons headed by Eldest Son were all catapulted into top executive positions despite their inexperience and young age. Why did Father make this seemingly risky business decision?
2. How would you describe the relationship between Father and his sons? What about the relationship between the brothers? Are these family relationships similar to that of your own home? How might these relationships shape the Liu family business?