Losing Money Abroad: The Swedish Match Company in China during the 1930s

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"It is hard to think of all the millions that have been spent on the Eastern adventure," lamented Fred Ljungberg, managing director of the Swedish Match Company's worldwide operations based at his headquarters in Stockholm, at the end of 1933. "Time and circumstances have dealt shabbily with us" [2, p. 461, n. 6]. "Shabbily" was putting it mildly. In fact, the company's profits and sales in China had fallen far below the standards set elsewhere in Swedish Match's worldwide commercial empire.

In the early 1930s, Swedish Match utterly dominated the match market in almost all countries of the world. It held majority shares in companies producing 40 percent of the matches in the world and minority shares in companies producing another 22 percent. So if market share is defined to include production of all companies except wholly independent rivals, then Swedish Match controlled no less than 62 percent of the matches produced in the world [4, pt. III; 5, p. 202]. But by this same definition of market share, Swedish Match controlled at most a mere 7 percent of China's market in the 1930s [9, pp. 26-27, 36, 42-43; 10, v. 1, pp. 153-154, v. 2, pp. 147, 153, 161-162, 171, 187, 202, 222, 226, v. 3, pp. 245, 248]. This anomaly would be readily understandable if China's match production had been small, but in fact it was the greatest of any country in the worldin 1930, 900,000 cases (each containing 50 gross of match boxes) compared to the second highest figure of 889,000 cases in the United States and the third highest of 760,000 cases in the Soviet Union [4, pp. 352-357, tables 20-22].

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In this global perspective, it is easy to see why Ljungberg felt that his company was treated "shabbily" in China. Moreover, if comparing Swedish Match's market share in China with shares held by its peers (such as Standard Oil Company in kerosene and British-American Tobacco Company in cigarettes), then Swedish Match's share was also small. So compared either to other large multinational companies' sales in China or Swedish Match's own sales elsewhere, Swedish Match had a losing record in China.

The question for this essay is: Why? If Swedish Match came to dominate the other match markets of the world in the 1930s, then why did it not dominate China's market--the largest one of all?

After exploring this question, I'll conclude by pursuing a proposal made by Mira Wilkins in her recent analysis of early Japanese multinationals [11]. Even as she compared the Japanese pattern with the "American model," I'll compare Swedish Match with its Chinese rivals in hopes of joining her search for comparative models describing multinational corporations.

Like several other large economic organizations since the mid-nineteenth century, Swedish Match faced the question of how deeply to become involved in internal distribution within China. After exporting a modest amount of expensive matches to China between 1919 and 1927 and after dumping a large quantity of cheap matches in China between 1928 and 1930, its Western managers began taking this question seriously in the 1930s. They had to decide whether to cross two thresholds: first, at the regional level, whether to create branch offices (and become, by definition, a long distance trading organization in China); and second, at the local level, whether to assign to these offices large staffs responsible for monitoring the activities of local commission agents. For any company these two thresholds were (and are) not easily crossed because each of China's nine "macroregions" (the Northeast, North, Northwest, Lower Yangzi, Middle Yangzi, Upper Yangzi, Southeast, South, and Southeast) was as large as Germany in area and much bigger in population [8].

In response to the spatial and commercial challenge posed in China, Swedish Match used a cautious approach. It crossed the regional threshold to the extent that it set up branches in four of China's nine regions (in Shanghai for the lower Yangzi region, Hankou for the Middle Yangzi, Hong Kong for the South, and Changchun and Dalian for the Northeast.) In two of the other regions (the Southeast and North), it was content to rely on foreign trading firms rather than creating its own offices, and in the remaining three regions (the Northwest, Upper Yangzi, and Southwest--all in westernmost China), it had no formal representation at all. As for the local threshold, the company's regional branches tried to cross it not through salaried representatives but through impersonal control devices. Each regional office had a staff that never exceeded five salaried employees (one Western manager, one Chinese sales manager, one Chinese comprador, and two Chinese clerks), and each of these offices was expected to keep overhead expenses below 2.5 percent of the value of its gross sales.

How could a tiny staff "cover" each region's vast sales territory? Lacking a staff in China as large as Standard Oil's or British-American Tobacco's, Swedish Match adopted the premise that its small administrative staff could win deference from Chinese commission agents by using two devices: direct correspondence and cash deposits.

In each of Swedish Match's regional offices for China (at Shanghai, Hankou, Hong Kong, Changchun, and Dalian), the Western sales manager was instructed to allow no one besides himself to write on behalf of the company to Chinese commission agents. Only he was authorized to sign letters on the company's stationery, and only he was supposed to receive correspondence from Chinese agents. He was to keep all copies of this correspondence in a locked file and all confidential letters in a safe. The aim of this security was to assure that the Western managers made all decisions and left none to their Chinese staffs.

Since the sales manager in each of Swedish Match's regional offices was a Westerner illiterate in the Chinese language, he had his Chinese sales manager translate his correspondence to and from Chinese agents (who knew little or no English). With every letter to a Chinese agent he enclosed a translation, but he signed only the English version of the letter - not the Chinese translation - and he used a chop on each letter saying in Chinese that letters were invalid unless they bore the Western manager's own signature. As a further precaution, he was instructed to check on the accuracy of his Chinese sales manager's translations by periodically having independent translations done.

If this system of direct correspondence was to keep each Chinese staff member in check, Swedish Match's system of cash deposits was meant to keep its local commission agents in check--that is, to prevent them from cheating, shirking, or violating company policies. In its system of cash deposits, Swedish Match extended no unsecured credit to its commission agents. Before the Western sales manager authorized deliveries of goods, he was supposed to have in hand the commission agents' cash deposits in amounts of silver equivalent to the full value of the goods. If not receiving payment from an agent within a maximum of thirty days, then the Western sales manager was supposed to cover the cost of the goods by automatically drawing funds from the agent's cash deposit.

Thus, through its regulations Swedish Match sought to extend its reach downward from its Western managers at the regional level to its Chinese office staff members and ultimately to its Chinese commission agents at the local level. In theory these regulations gave the Western managers all authority, dictated commercial practices to be followed by Chinese as well as Westerners at all levels of the marketing hierarchy, and instituted a distributing system comparable to the one used by the company elsewhere in the world. But in practice these regulations failed to retain full authority for Western managers, failed to win consistent adherence from Chinese staff members and commission agents, and in general failed to establish rapport between the company and its distributors. These failures go a long way toward explaining why Swedish Match lost money in China.

Let me illustrate with reference to Swedish Match's operation at Hankou, the regional branch in China second only to Shanghai in importance. In this case, soon after opening a branch at Hankou in 1923, Swedish Match began dispatching Westerners to manage it, but the successive appointees never fully implemented Swedish Match's marketing system. Instead, they hired and delegated authority to a comprador named Mi Zhixuan (Mee Tse Hsien) in 1926 and unwittingly allowed him to assume far greater control over marketing than they held. For eight years, 1926 to 1934, Mi operated with impunity in Hankou until his practices were exposed by a company investigation on which the following account is based.

Mi subverted Swedish Match's system of direct correspondence by appointing in the Hankou regional office a Chinese staff loyal to himself. According to the company's policies, he did not have the authority to make these appointments; his duties were officially confined to the recruitment of Chinese commission agents and the guaranteeing of their payments to the company. Nonetheless, he did not hesitate to suggest candidates for the positions, and these candidates were readily appointed and retained by each successive Western manager.

Through the Chinese staff, Mi was able to initiate as well as intercept so-called direct correspondence between the Western manager and Chinese commission agents. To circumvent the company's policy requiring the Western manager's signature on all official correspondence, for example, the Chinese staff persuaded the Western manager to sign blank copies of contracts and delivery orders. Insofar as Mi was able to use these signed forms undetected, they were all he needed to dictate Swedish Match's most fundamental marketing policies: the selection of its Chinese commission agents, the terms of their contracts, and the distribution of goods among them.

Like correspondence, Mitings with Chinese commission agents were diverted from the Western manager to Mi. Little did the Western manager realize that while his office lay idle, his comprador Mi was busy meeting Chinese commission agents outside the office at Mi's medicine shop and in Mi's home. So much for so-called "direct correspondence."

In finance as in administration, the comprador Mi made arrangements at variance with Swedish Match Company's policies. To expand its market, the company's policy was to recruit the maximum number of agents by granting an agency to any Chinese willing to put up a cash deposit and sign a contract prohibiting sales at unauthorized prices and outside assigned sales territories. Contrary to this policy, Mi granted only a limited number of agencies and rewarded some much more generously than others.

Mi's chosen agencies can be divided into a three-tiered hierarchy. In the top tier were the firms that he favored. In Hankou these firms were known as "The Big Three". Each of these companies was bound to Mi through personal ties and financial obligations. From The Big Three Mi borrowed money, and to The Big Three Mi secretly granted the privilege of selling on consignment matches whose value exceeded their cash deposits by more than $200,000.

On the second tier of Mi's hierarchy were smaller agencies in Hankou and elsewhere in the Middle Yangzi region. Mi was not personally bound as closely to these firms or their owners, and he discriminated against them. Without informing the company, Mi took his own cash deposits from these smaller firms by withholding their bonuses, charging Hankou prices outside the city (contrary to the company's price scale), and demanding payment on goods in advance of delivery. Naturally these discriminatory practices provoked complaints from Chinese commission agents on this tier, but Mi (whose Chinese appointees in the Hankou branch office intercepted the complaints) threatened to terminate the complainants' agencies if they ever complained again.

At the third level in Mi's hierarchy was a phantom tier. The so-called agencies on this tier consisted of nothing more than mail boxes in towns (Youzhou, Xindi) or a whole province (Henan) in the Middle Yangzi region from which correspondence (including letters from the company) was forwarded to Mi's medicine shop in Hankou. Mi created these fictitious agencies on paper to mislead Swedish Match into believing it had an extensive marketing system that reached throughout the region. Using this tier as a cover, he kept records showing that places on it received goods which he actually held in storage whenever the company was about to raise its prices. Once the prices rose, then he and The Big Three secretly sold the supposedly distributed old goods at the new higher prices and pocketed the difference.

Not surprisingly the disclosure of Mi's eight-year old operation infuriated Swedish Match's management which denounced the entire staff as Mi's "henchmen" and fired everyone in its Hankou office, including the Western manager, in 1934. If we accept the company's privately rendered verdict, we have here a case of corruption which shows that Swedish Match lost money in Hankou (not to mention Shanghai and other branches where there were similar but less well documented cases) because its Chinese employees were unprincipled men lacking any notion of trust.

Perhaps Mi was corrupt. But my hunch is that his practices were symptomatic of a broader problem. In support of my hunch and by way of conclusion, let me put Swedish Match's approach in a comparative perspective and offer an alternate explanation for the company's losses.

Perhaps Swedish Match's problem was not that it hired untrustworthy Chinese (or, as its Western management often asserted, that all Chinese were untrustworthy) but rather that it designed a Western-style distributing system which made no allowances for Chinese merchants' conceptions of trust. Such an inference gains credence from the fact that Swedish Match's Chinese rivals in the match industry used distributing systems different from the one Swedish Match tried to set up and similar to the one used by the supposedly corrupt Mi. Unlike Swedish Match's Western management and like Mi, Chinese match companies built up their distributing systems squarely on a foundation of face-to-face networks which were based on loyalties to localities and were institutionalized in native-place associations. (Native-place associations had long served as vehicles for long-distance trade in pre-twentieth century China and were adapted for this purpose in the early twentieth century [3;7]. For that matter, these same native*place associations have continued to serve this purpose in the mid- and late-twentieth century too. But that's another story.)

Through their native-place networks, Swedish Match's Chinese rivals entrusted goods to Chinese commission agents without requiring direct correspondence or cash deposits. By offering greater autonomy and comparatively liberal credit, Chinese match companies induced local commission agents to prefer their goods even though all parties conceded that Swedish Match's comparably priced product was of superior quality.

Swedish Match's general manager in China, Sigvard Euren, was well aware that his rivals used this different approach, but he considered it untenable for his company because, in his words, "To use shop guarantees or other securities than cash or to give unsecured credit would for us, as a foreign concern, mean to give away matches to any dealer who for some reason or other does not wish to pay." In even balder language (again Euren's), "Giving credit would be the same as to give the money away." Adopting this premise, the Western company's approach restricted sales rather than grant credit on terms as favorable as its rivals'. Thus, for Swedish Match the logic of losing money abroad was in this case clear: better to miss opportunities for sales in China at levels commensurate with the company's worldwide standards than to run the risk that Chinese agents' unpaid debts would make sales unprofitable.

As a study of one company, this essay has, I hope, provided at least a partial answer to the question of why Swedish Match was relatively unsuccessful in China during the 1930s.

As a beginning point for comparative purposes, it is also meant to raise questions that might be asked in designing historical models for multinational enterprises. I hope that my analysis here of two thresholds facing every multinational will make a small contribution along these lines. The first threshold at the regional level is a reinforcement of Mira Wilkins' point in her recent article that it is important to ask why and when multinationals have ceased delegating responsibility for marketing to foreign trading companies and begun assigning this responsibility to their own salaried representatives abroad [11, p. 223]. The second threshold at the local level takes us more deeply into economies hosting multinationals than historians have been inclined to go and invites us to make comparisons rarely made. With an eye on this threshold, we might ask, as I have here: Do the relations between foreign-owned multinationals' salaried representatives and local commission agents differ from relations between domestically owned companies' salaried representatives and local commission agents? Or, in a study of more than one multinational, we might explore a related question: In a given country, do relations between some multinationals' representatives and local agents differ from relations between other multinationals' representatives and local agents?

Broad answers to these questions might help us to understand various approaches that multinationals have used in adapting to foreign markets and might enable us to construct comparative models of the kind that Professor Wilkins has called for. For my own purposes here, these questions have seemed well worth asking because they have led to the conclusion that the Swedish Match Company failed to cope as effectively as its Chinese rivals with local commission agents; and this conclusion, in turn, seems to me to be the key to understanding why in the 1930s the Swedish Match Company ended up losing money in China.

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