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**President Chain Store Corporation's Hsu
Chong-Jen: A Case Study of a Salaried
Manager in Taiwan**

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Abstract

Salaried managers have been increasing in top management of many Taiwanese companies. Why and how have their roles become more important? In order to answer these questions, it is necessary to examine the complicated relationships between salaried managers and the founders' families who appoint them to top-management positions. This paper examines the case of Hsu Chung-Jen, the president of President Chain Store Corporation. PCSC operates Taiwan's 7-ELEVENS, the largest convenience store chain on the island. He may be regarded as the most advanced salaried manager in Taiwan today.

Keywords: salaried manager, business group, retail and distribution, Taiwan

JEL classification: L21, L81, M12, M13, M14, O53

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Section I. Introduction

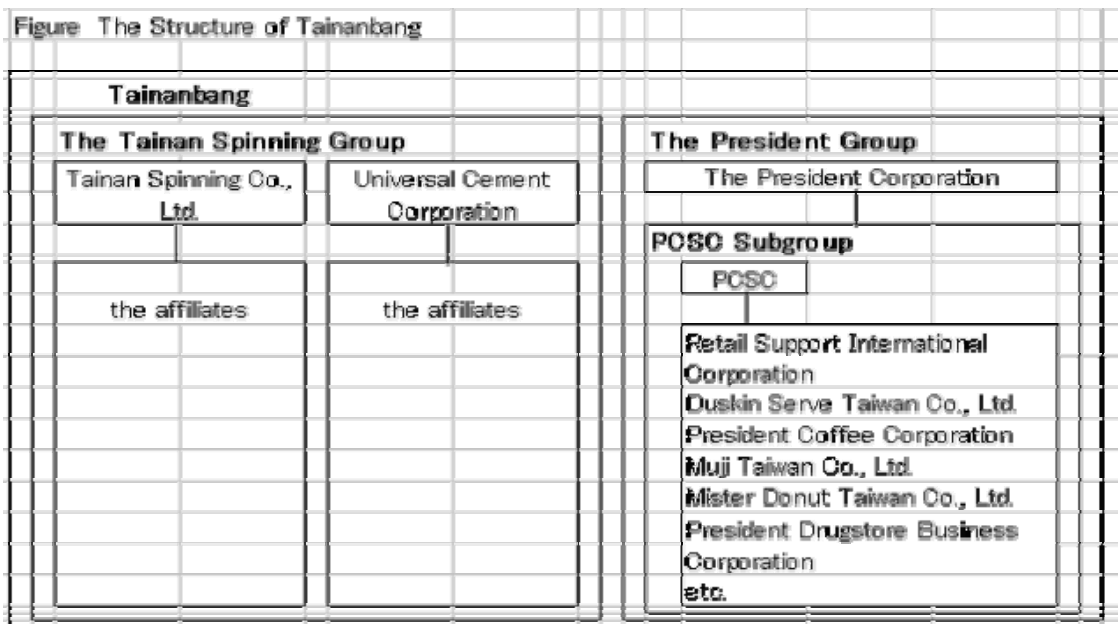
Experiences in developed countries have shown that salaried managers play more and more important roles in modern big business. Considering the case of latecomers, it has been shown that salaried managers have been increasing in top management of many Taiwanese companies (see Sato, forthcoming). Why and how have their roles become more important? Taiwan's business society has been considered to have two entangled features that obstruct the increase of top-management level salaried managers. On one hand, many founding families of big businesses have held their grip on management; on the other, most able young people have been inclined to prefer independent businesses for their employment. Have these conditions changed? If they have changed, what factors brought about such change? In order to answer these questions, it is necessary to examine the complicated relationships between salaried managers and the founders' families who appoint them to top-management positions. Their discourse must be analyzed so that their thinking may be understood. An in-depth case study can satisfy these conditions. While a case study is limited in how representative it is, this weakness can be overcome through accumulating studies hereafter.

This paper examines the case of Hsu Chung-Jen¹, the president of President Chain Store Corporation. PCSC operates Taiwan's 7-ELEVENs, the largest convenience store chain on the island. A primary reason for choosing Hsu as the target of this study is that his performance has been the most remarkable of Taiwan's salaried managers. No other salaried manager is on the lists of presidents of the largest 50 private companies in 1993 and 2003. He may be regarded as the most advanced salaried manager in Taiwan today.

Another reason for choosing Hsu is that there are abundant materials about him,

¹ In this paper, English representations of persons' names are used where available. If not, they have been represented using the Wade-Giles system (without apostrophes as is usual in Taiwan). The most popular representation for names of places, such as "Taipei", has been used. Except for names of persons and places, Chinese has been romanized using the pinyin system.

Figure The Structure of Tainanbang



the Tainanbang Group, and the Tainanbang Group affiliate PCSC (see Figure). Of all Taiwanese business groups, Tainanbang has been studied more often and with more depth in the past. Representative studies include Numazaki (1993) and Hsieh (1999). Accumulated studies can be used when examining the historical background of PCSC conventions and institutions. Many interviews with Hsu and Kao Chin-Yen, the founder and the present chairman of PCSC, may be found in journals and newspapers. Books have also been published that express their thoughts and ideas². Further, the author has interviewed Hsu.³ Thus, much discourse had been obtained.

Section II. Hsu's Career and the Development of PCSC

The first task of this paper is to survey Hsu's career and the development of PCSC. Hsu was born in 1948 in Tainan City. After graduating with a major in business administration from Feng Chia University in 1972, Hsu fulfilled his dream of studying in Japan and entered the graduate school of commercial science of Waseda University. Hsu's family was not poor, but neither were they extraordinarily rich. His

² Concerning Hsu and the PCSC, two books have been written by Hsu himself (Hsu 1995, Hsu and Wang 2004). Li (1995), Chuang (1999b, 2001) and Yang (2005) are also available. For Kao, please see note 6.

³ The author interviewed Hsu Chong-Jen on January 24, 2005 at the headquarters of PCSC in Taipei. Communication was mainly in Mandarin but also sometimes in Japanese.

father could provide him with only US \$3,000 when he left Taiwan. Since Hsu paid most of this money to the school for expenses, he needed a part-time job from the beginning of his stay in Japan.

PCSC is affiliated with the President Corporation, which was established in 1967. After six years, it became the largest corporation in Taiwan's food manufacturing industry. Kao Chin-Yen was the founder, and he managed the company as president. When he visited Europe, he was told that in the future, leadership in business would move from manufacturing to retail/distribution. He thus began to consider entering that field. In actuality, the President Corporation increasingly saw Taiwan's traditional system of distribution and retail as a bottleneck to expansion of sales. Later, Kao saw a convenience store in the United States and instinctively felt it was promising. Through close investigation, he understood that this type of business had been growing in the United States and Japan.

At the same time in Japan, Hsu observed developing convenience stores and thought he would implant this business in Taiwan. When he returned to Taiwan in 1977, he had a chance to meet Kao. Kao was about to embark on this business, and he employed Hsu.

In the President Corporation, Hsu was entrusted with planning the convenience store business. When PCSC was established in April 1978, he was transferred to that company and became vice-chief of the planning department. Since that time, he has been building the business and instructing recruits in knowledge about retail and distribution.

PCSC was tied up with Southland Corporation in the United States (today's 7-Eleven, Inc.) and introduced its ways of doing business. The first shop with the sign of 7-Eleven was opened in February of the next year. However, PCSC experienced deficits for the first seven years of its existence. After a few years, PCSC stockholders⁴ (except for the President Corporation which also owned stock in PCSC) were disappointed with PCSC's future and exchanged their stocks for those in the President Corporation in 1982. Thus, PCSC was merged into the President Corporation and transformed into one section.

At this time, Hsu was moved to the bread production section of President Corporation for a while; he returned to the convenience store section in 1984. Soon after his comeback, he decisively closed 35 shops that had performed badly; the

⁴ When PCSC was established, Kao tempted the existing distributors to invest in it (Lee's interview with Kao in Lee 1995).

number of shops decreased from 75 to 40. At the beginning, following the direction from Southland, PCSC opened shops in residential areas and primarily targeted housewives. However, since PCSC prices were relatively higher than those of traditional bazaars, PCSC failed to absorb price-conscious housewives. Hsu adopted a new strategy aimed at young people; he set up shops along busy streets and at crossroads. On signs, PCSC's Chinese name, "Dong Yi Chao Ji Shang Dian," was removed and replaced by only "7-ELEVEN." This transformation of strategy was successful in improving PCSC's performance, and the corporation finally produced profit in 1986. In the following year, PCSC became an independent company again, and Hsu became its president (the chairman was Kao).

Thereafter, PCSC grew at surprising speed. In 1995, there were more than one thousand shops, and sales were the largest in Taiwan's retail and distribution industries. By the end of May 2004, PCSC had 3,592 shops. It also has continued to make innovations such as the development of a system for paying utilities and selling lunches.

PCSC has established many affiliates. Some of these are related to PCSC's business. For instance, the first affiliate, Retail Support International Corporation, was set up in 1990 as a joint venture with RyoShoku Ltd. and takes charge of transportation of goods sold at 7-ELEVEN's. It began horizontal diversification with Duskin Serve Taiwan Co., Ltd., a joint venture with Duskin Co., Ltd., in 1994. It went on to found President Coffee Corporation with Starbucks Coffee International in 1997, Muji Taiwan Co., Ltd. with Ryohin Keikaku Co., Ltd. in 2003, Mister Donut Taiwan Co., Ltd. with Duskin Serve Taiwan Co., Ltd. in 2004, and others. PCSC has been able to successfully diversify because of its ability to do well-timed introductions of businesses in developed countries and assimilate them in ways that are attractive to Taiwanese consumers, and also for its system of applying resources accumulated through preceding businesses to new businesses. PCSC has not only established joint ventures with the foreign companies mentioned above but also by itself, launched the drug store chain, President Drugstore Business Corporation in 1995. This chain owned the original brand name Cosmed. PCSC's internationally oriented assumption of management of Philippine 7-ELEVEN's in 2000, its establishment of Starbucks in Shanghai in 2000, and its setting up the Cosmed drugstore in Shenzhen in 2004 are all noteworthy. A few years ago, the President Group divided its businesses into four subgroups, one of which is the retail and distribution subgroup with PCSC as its headquarters. As a result, PCSC now supervises companies established by the President Corporation and other member companies in the group as well as its original

affiliates. At the end of 2004, the subgroup was composed of 32 companies.

Section III. Hsu's Dream and Choice

As mentioned, Hsu found the convenience store business in Japan. He came to Japan just when Japanese retail and distribution were undergoing a tremendous transformation, and this became a strong inspiration for him. He described his first encounter with that business as follows:

“Arriving in Japan, I found a book on “Ryutsu Kakumei” (the revolution of retail and distribution) at a bookstore. In the beginning, “Ryutsu” was strange to me⁵, but soon after reading the book, I was absorbed in it. I bought many related books and started to study it.

Fortunately, I discovered one 7-ELEVEN shop near my house. And MITI of the Japanese Government was making an effort to diffuse the idea of convenience stores. I thought this type of store would be very appropriate for Taiwan's environment, and I was determined to major in the economics of retail and distribution. Thus I launched my study in this direction.” (Hsu 1995: 4-5)

This demonstrates Hsu's way of thinking. He made innovations in PCSC operations and initiated a new business in the retail and distribution subgroup by referring to experiences in other countries and considering what businesses would improve the Taiwanese living standard.

The next step was to determine how to build a convenience store business in Taiwan. In his school days, Hsu did not want to serve as a salaried worker, and he hoped to found his own company (Chuang 1999b: 194). In reality, however, he encountered Kao Chin-Yen and chose to be an employee of the President Group. He regarded the building of a convenience store business as a top priority and chose the most effective course for this purpose. This made doing an independent business a secondary goal. Therefore, although he was a salaried manager, he sustained his independent spirit. He regarded his entering the President Group as a partnership between himself and the group. The following words show his idea:

⁵ Although the same Chinese characters are used, the meaning of Ryutsu in Japanese is not same as Liutong in Chinese.

“Partnering with big business is kind of like establishing a company. It is not so bad, is it? Practically, a big business is rich in funds and other resources. A new business can be set up quickly by exploiting these resources.” (Author’s interview with Hsu)

PCSC’s actual experience indicates that it would be extremely difficult for Hsu to construct a convenience store business by himself. PCSC suffered seven years of deficits, and in 1982, its accumulated loss amounted to 200 million NT dollars. This was equal to its capital (Yang 2005: 44). Any entity other than big businesses could not stand such a large and lingering loss. Hsu acknowledged it in the following:

“In those days, Taiwan’s market was still immature. Namely, consumers did not reach the level [where they could accept convenience stores]. For this reason, we needed to spend many days in educating them. If I had initiated the business by myself, I would have closed it in one year. I would have shut it down when I had exhausted my money. The President Group had abundant funds. I needed its financial support.” (Author’s interview with Hsu)

Since Hsu thought he could not realize his dream in other places, he remained in the group during hard days. In those days, some banks, foreign companies, and other business groups attempted to hire him, but he rejected their proposals (Hsu 1995: 103, Chuang 1999b: 178). In 1986, his dreams finally came true. His success proved that he had been right in choosing the method of being a salaried manager to pursue his goal.

Section IV. Tainanbang’s Tradition and Kao’s Managerial Attitude

One important reason for Hsu choosing PCSC as a place where he tried to accomplish his ambitions was that Kao entrusted management to him with little interference (Chuang 1999b: 178). This was not usual in Taiwanese companies where founding families were exceptionally powerful. However the Tainanbang,⁶ a business group from which the President Group came, had and has a tradition that presidents be entrusted with the management of affiliates.

⁶ Tainanbang was organized by people from the same place and has different aspects relative to other Taiwanese business groups grounded on relationships. Its cohesiveness is mild, and its structure is multilayer. The subgroups, such as the President group, are highly autonomous.

Tainanbang's origin dates back to a cloth shop established by Hou Ji, but the direct root is Hou Ji's nephew, Hou Yuli⁷. After he worked as an apprentice at Hou Ji's shop, Hou Yuli set up his own shop and made his fortune. Wu's brothers, Hsiu-Chi and Chun-shien, who were from the same place as Hou, also first worked at Hou's shop and afterwards became independent as cloth traders. Before the mid-1950's, they sometimes suspended their businesses because of the war and the postwar turmoil. In 1955, Wu's brothers established Tainan Spinning Co., Ltd. together with their relatives and friends. Tainan Spinning became a core company of their business group. Hou Yuli was the largest stockholder, and Wu San-lien, who was a famous statesman as well as a Hou and Wu's countryman, was invited to be the chairman. Wu Hsiu-Chi assumed the presidency and seized the managerial initiative. In 1960, another of the group's core companies, Universal Cement Corporation, was founded. The group members capitalized it as well. Wu San-lien assumed the chairmanship again, and Wu Chun-shien played the main role in management as president.

Relying on his cousin, who was married to Wu Hsiu-Chi, Kao was temporarily assigned a job at Wu's shop after the war. Although he had already launched his own business when Tainan Spinning was established, Wu requested that he join the company. Kao agreed to Wu's proposal and was installed as the business manager (*yewu jingli*). In the 1960's, Kao left the company and initiated the President Corporation. He then invited Wu Hsiu-Chi to be chairman "remembering the source of the water which he drank" (Kao and Chao 1999: 208). Other families in Tainanbang also provided capital for the company. Cheng Kao-Huei, who had been acquainted with Kao as a customer of Tainan Spinning, accepted Kao's offer and invested in the company. He then became an important member of Tainanbang. Today he is a chairman of Tainan Spinning.

Two characteristics, which have significant effects on PCSC development, can be distinguished in Tainanbang's experiences: First, the group was so flexibly and openly organized that it could actively absorb outside human resources when necessary.⁸ Kao was interested in the convenience store business but lacked the talent that was familiar with retail and distribution inside the President Group. Thus, the first time they met, Kao immediately tempted Hsu, who he saw could satisfy the needs of his company. Hsu explained what Kao said to him when they met the first time:

⁷ The following Tainanbang history is largely based on Hsieh (1999). Tianxia Bianji (1996), Chuang (1999a) and Kao and Chao (1999, 2001) are also referenced.

⁸ According to Numazaki (1997), social networks in Taiwan are generally open and flexible. Of business groups, Tainanbang stands out in these aspects.

“Mr. Kao told me he lacked knowledge about how to develop the retail and distribution business because he had been engaged in food processing. For instance, he did not know how he should manage the chain stores. ... He asked me to help him build up the chain store business since I had studied this field.” (Author’s interview with Hsu)

The second characteristic is Tainanbang’s delegation of management to the president. Since Tainanbang’s many affiliates are partnerships of many families, no one family is prominent in shareholding. For this and other reasons (Hsieh 1999: 239), the chairmen and directors rarely participate in management of the group’s affiliates. They transfer most management responsibilities to the presidents. This tradition is called “the president system” (*zongjingli zhi*). Kao used this system (Chuang 1999a: 110, 135) and delegated management of most affiliates in the President Group to the residents and other managers.⁹ Kao’s remarks clearly demonstrate his management style. At that time, he had already handed over the presidency of the President Corporation to Lin Chang-Sheng and he then took up the vice-chairman and the group CEO. According to Kao,

“The President Corp. adopts ‘the president system,’ not ‘the chairman system.’ ... I listen to their [Lin Chang-Sheng and others] reports and make some suggestions. I never force them to follow my ideas. If I am too coercive and ignore that they are responsible for the company, then they cannot exercise full power.” (Tianxia Bianji 1996: 24)

This is the background in which Hsu could manage PCSC with little intervention.

Section V. Internalization of Establishment and Economy of Growth

Tainanbang is equipped with a mechanism whereby it continues producing new entrepreneurs and keeps growing¹⁰. The Wu brothers, who were employed by Hou

⁹ Despite the fact that the PCSC grew rapidly and Hsu attracted public interest, Kao appeared in no way to be jealous of him (Chuang 1999a: 242; Kao & Chao 2001: 187-9).

¹⁰ Numazaki (1993) described the structure of Tainanbang as a Banana-bunch shape. Although his view certainly pointed out one feature of this group, it was quite static and may have overlooked the dynamism mentioned here. In other words, Numazaki’s

Yuli, started their own business. Kao, who was employed by the Wu brothers, also established his own company. Every time young industrialists founded a new business, the group expanded its scale and scope. It should be noted that the former employers always backed up the young entrepreneurs' challenges. When the Wu brothers had just set up their company, Hou supported them through endorsing their checks and guaranteeing their bank account (Hsieh 1999: 82) . As mentioned above, the Wu brothers invested in The President Corporation that was established by Kao, and Wu Hsiu-Chi assumed its chairmanship. In these ways, in the Tainanban, the vigorous entrepreneurship of new generations can be combined with the capital accumulated by old generations.

The relation between Hsu and Kao can be considered another case where Tanainanban's traditional mechanism created a new entrepreneur. At the same time, however, one significant transformation also occurred. Although Hsu built up PCSC, he is nothing more than a salaried manager. Hsu does not control PCSC by ownership. Therefore, any control of PCSC will not succeed to his family in the future. The new business was established within the existing business group. The former mechanism that produced one entrepreneur after another changed the new one that turns out top-management level salaried managers.

As mentioned above, Hsu needed to choose to be a salaried manager to access the President group's resources because the necessary money for establishing the business was too large for Hsu to collect. Generally speaking, the initial capital for a new enterprise is much greater than the amount one individual can mobilize. Thus, as in Hsu's case, the function of constructing the business was completely divorced from the function of risk bearing, and a different actor carried out each function.

The President group has deliberately internalized establishment of new businesses since this policy can produce the positive circle that follows. The opportunities to set up fresh ventures can strongly motivate salaried managers and promote the group's development. This, in turn, increases the resources for another venture. This is a kind of economy of growth. Kao obviously understands it and carries on diversification as a strategy for stimulating salaried managers (Tianxia Bianji 1996: 12、 Hsieh 1999: 176-7、 Chuang 1999a: 145, 174, 326) . He has said "If employees only make efforts, they can hope to be presidents in the future" (Kao & Chao 2001: 119) .¹¹

analysis concentrated on ownership and paid less attention to management that was assumed by one new talent after another.

¹¹ This incentive system is effective because the President group builds up a solid internal labor market, and vacant posts are usually filled by existing employees rather

Hsu also adopts this strategy. He has said

“When the company continues to develop, employees can improve their lives. I actively promote new enterprises in order to offer many more alternatives to them” (Hsu 1995: 61) .

“If you believe you have a chance to rise, then you can endure hard work with an ordinary level of wage.” (Author’s interview with Hsu)

Section VI. Conclusion: General trends and Taiwan’s peculiarity

Hsu Chong-Jen’s success may be considered to be very specific. Undoubtedly Hsu’s success is partly attributable to particular factors such as Tainanban’s president system. However his experience is a prelude to more general changes in the relations between owners and managers in Taiwan’s business groups. Today in Taiwan, one individual is usually unable to collect a sufficient amount of money for initiating a new venture. At the same time, families who control existing big businesses do not necessarily have talents capable of discovering business chances and building up machineries for them. Therefore, establishing new business by combining an existing business group’s resources with a salaried manager’s entrepreneurship can be seen as a universal model. Further, Hsu’s performance has a demonstration effect. Both salaried managers and owners of business groups can benefit from reproduction of economies of growth as in the case of PCSC exhibits.

This view is nothing but a textbook story of development in capitalism. In other words, Hsu’s experience may prove that Taiwan’s capitalism moved ahead by traveling an orthodox road. It also gives an idea of what is peculiar to Taiwan, that is, the very strong entrepreneurship of a salaried manager. As in the case of Hsu, Taiwan’s salaried managers may maintain as strong a passion for initiating new businesses in the companies which employ them as those who independently established ventures in the past. If so, companies and business groups that more skillfully internalize their spirit can develop more speedily. Further, industries where salaried managers find it easy to display their entrepreneurship may be more promising for the future of Taiwan.

than by newcomers from outside. The PCSC also has its own well-designed internal labor market.

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