



Market-Embedded Clans in Theory and History: Greek Diaspora Trading Companies in the Nineteenth Century

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Ever since publication of Oliver Williamson's *Markets and Hierarchies* in 1975, the market and the hierarchical firm have been thought of as constituting two poles of a continuum of organizational forms. In 1980, William G. Ouchi put forth the concept of the *clan* as a potential alternative to markets and hierarchies for organizing transactions. Subsequent work has employed the clan concept almost exclusively in the context of organizations, that is, as a substitute for hierarchy. An analysis of how a functioning clan, the members of which transact with each other and with non-members across a market interface, affects the organizational forms they adopt is missing. We attempt to fill this void by analyzing, first, the clan concept and especially market-embedded, rather than organization-embedded clans. Second, we show that the members of a market-embedded clan will tend to establish shallower and more volatile organizations than is standard practice among non-members. Third, we analyze a historical example, nineteenth century Greek Diaspora Trading Companies that were less hierarchical organizations than their Western counterparts. We explain this difference through our observation that a group of merchants from the island of Chios with clan characteristics stood at the core of the Greek Diaspora.

This paper has its origins in the rather commonplace observation that a specific economic institution may take various shapes in different cultural settings. While such a statement may be obvious, the task of explaining how and why it occurs in a given historical context can be a provocative intellectual exercise and an area where theory and history can intersect in a mutually beneficial manner.

The particular observation that triggered this paper is that the nineteenth century Trading Companies of the Greek Diaspora were less hierarchical, more volatile organizationally, and less dependent on direct family relationships than their Western counterparts. For the purpose of

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exploring this historical “enigma,” we consider the concept of the clan from a theoretical perspective, and construct the concept of a market-embedded clan. We believe this intellectual exercise may not only explain the Greek peculiarity in analytical terms, but that it might also contribute to enhancing our understanding of how business organizations are formed.

Ever since Oliver Williamson published *Markets and Hierarchies*, the market and the hierarchical firm have been thought of as constituting the two poles of a continuum of organizational forms.¹ William G. Ouchi put forth the concept of the clan as a potential alternative to markets and hierarchies for organizing transactions.² A clan is a group of individuals characterized by a high degree of “equity,” “goal congruence,” and shared understanding, features that lead to high levels of trust among its members. These attributes allow members to act in a coordinated fashion with minimal levels of bureaucratic control that is very useful in situations characterized by high uncertainty and performance ambiguity. However, although the clan concept was initially proposed as an alternative mechanism to markets and hierarchies, both Ouchi’s original contribution and his subsequent work, have employed it almost exclusively in the context of organizations, that is, as a substitute for hierarchy. What is missing from the literature is an analysis of a functioning clan, the members of which transact with each other and with non-members across a market interface.³

We attempt to fill this void by first analyzing the clan concept and its relevance in the context of transactions that can be characterized as arm’s-length market relations. Thus, we focus here on “market-embedded,” rather than organization-embedded clans. Heeding Ouchi, who offers some hints on the operation of market-embedded clans, we argue that the attributes of clans have important effects on the business

¹ Both poles are assumed to provide a framework for the organization of transactions, the former relying on decentralized decision-making on the basis of the high-powered incentives provided by prices, the latter relying on bureaucratic control. Oliver E Williamson, *Markets and Hierarchies: Analysis and Anti-trust Implications*, (New York, 1975).

² William G. Ouchi, “Markets, Bureaucracies and Clans,” *Administrative Science Quarterly*, 25 (March 1980): 129-41.

³ William G Ouchi, *Theory Z: How American Business Can Meet the Japanese Challenge*, (Reading, Mass, 1981); William G. Ouchi, *The M-Form Society*, (Reading, Mass., 1984); Oliver E. Williamson and William G. Ouchi “The Markets and Hierarchies and Visible Hand Perspectives,” in *Perspectives on Organization Design and Behavior*, ed. Andrew Van de Ven and W. F. Joyce (New York, 1981); Alan L Wilkins and William G. Ouchi, “Efficient Cultures: Exploring the Relationship between Culture and Organizational Performance,” *Administrative Science Quarterly* 28 (Sept. 1983): 468-81; and Mats Alvesson and Lars Lindkvist, “Transaction Costs, Clans and Corporate Culture,” *Journal of Management Studies* 30 (May 1993): 427-452.

forms that members tend to set up. Members of a market-embedded clan should tend to establish shallower and more volatile organizations than is the standard practice among non-members.

In our analysis, an important attribute of market-embedded clans is the historical depth of the group's clan-like features. Therefore, following a brief discussion of the main characteristics of nineteenth century Western Trading Companies, we compare and examine features of Greek Diaspora Trading Companies. We argue that the distinctive differences in governance structure (hierarchy) between the two cases can be explained by the fact that at the core of the Greek Diaspora network stood a group of merchants, which originated from the island of Chios and had all the characteristics of a market-embedded clan.

The Clan as a Theoretical Concept

The General Concept of the Clan. The central category from which Ouchi begins his analysis of the clan concept is equity: the desire by agents to be treated fairly in a relationship, not expropriated from the reward due them from their real contribution to a transaction. In fact, he claims that it is the category of equity that gives rise to transaction costs, which he understands as the costs that agents incur to safeguard themselves against the other party possibly acting in an inequitable manner.⁴ Doubts about the equity of transactions may thus arise from two sources: first, from the ambiguity of individual performance measurement (high uncertainty over what is actually transacted) and second, if transacting parties' goals are incongruent, doubts may arise because of the possibility of opportunistic behavior by one's contracting partner. On these grounds, Ouchi defined the choice between market and hierarchy as follows: "market relations are efficient when there is little ambiguity over performance, so the parties can tolerate relatively high levels of opportunism or goal incongruence. And bureaucratic relations are efficient when both performance ambiguity and goal incongruence are moderately high."⁵

Ouchi proceeds to define a third mechanism (along with markets and hierarchies): the clan, as "the obverse of the market relation since it achieves efficiency under the opposite conditions: high performance ambiguity and low opportunism." The former stems, of course, from the specific production activity that a group of agents is engaged in. Thus, the crucial aspect of clans is the existence of low levels of opportunism among members or goal congruence. However, goals are not just the intentions people have at a particular point in time, but, rather, a vision of the group's place in the world and a strong conviction that long-term the

⁴ See Ouchi, "Markets, Bureaucracies, and Clans," 130: "It is this demand for equity which brings on transactions costs. A transaction cost is any activity which is engaged in to satisfy each party to an exchange that the value given and received is in accord with his or her expectations."

⁵ Ouchi, "Markets, Bureaucracies, and Clans," 135.

individual's place is inescapably linked to that of the group. Therefore, it is not congruence on specific goals that is of major importance but rather the common beliefs and values that, as Alvesson and Lindkvist maintain, arise based on goal congruence.⁶

We have already discussed the centrality of the notion of equity in Ouchi's original formulation of the clan concept. For confidence in equity to reign within a group, membership identities matter greatly.⁷ Therefore, mutual acquaintance is essential for the existence of the clan; if it cannot be assumed, it is very difficult to imagine on what grounds confidence in equity exists. Mutual acquaintance need not stem from personal contact. Some sort of accreditation mechanism may ensure it. In fact, the clan is itself an accreditation mechanism, with membership signifying conformity to the set of norms and practices that constitute the specific group's distinguishing characteristics.

Both the category of equity and the identities of the parties that share confidence in equity imply that we must think of the relationship as having a historical past that has shaped its current configuration. The very meaning of equity cannot possibly be thought of as non-expropriation in a spot transaction, thus confidence in equity is independent of whether or not each specific transaction is perceived as equitable. In fact, according to Ouchi, the members of the group must view equity as something that will ultimately prevail. In this context, confidence in equity is historically constructed. Ouchi describes this historical aspect of the clan phenomenon very clearly:

In a clan, however, equity is achieved serially rather than on the spot. That is, one clan member may be unfairly underpaid for three years before his true contribution is known, but everyone knows that his contribution will *ultimately* be recognized, that he will still be there, and that

⁶ Alvesson and Lindkvist "Transaction Costs," 432. This broader view of goal congruence is evident in Ouchi's reference to Durkheim's notion of "organic solidarity." As the term suggests, Durkheim draws the analogy between the members of a social group and the organs of a living organism. Although each one of the latter may do a different job (i.e., pursue a different "goal"), they all operate collectively to sustain the organism; see Ouchi "Markets, Bureaucracies, and Clans," 132; Emile Durkheim, *The Division of Labor in Society*, (New York, 1933).

⁷ Ouchi does not stress this point in his original contribution, in which he focused on corporate organizations. This is evident in the following passage: "What form of mediation succeeds by minimizing goal incongruence and tolerating high levels of ambiguity in performance evaluation? Clearly, it is one which embodies a strong form of the *employment relation*..." [emphasis added]; Ouchi, "Markets, Bureaucracies, and Clans," 135.

equity will be achieved in the end. This is what is meant by *serial equity*,” [emphasis added]⁸

Confidence in equity implies a strong emphasis on reciprocity, as the behavioral assumption that all clan members hold about their peers. More importantly, the assumption that peers are generally inclined to act towards us in a manner that upholds the principle of reciprocity tends to produce increasing returns. Therefore, the stronger the confidence in reciprocity, the more that cooperative attitudes will be strengthened. Of course, just as in the case of equity, reciprocity need not manifest itself in every transaction between members of the clan. If we understand the confidence in reciprocity as building over time, we could talk about “serial reciprocity” parallel to serial equity.

The above considerations imply a situation where the fear of opportunism is greatly constrained. In a group with all the attributes of a clan, trust and mutual understanding among the members replaces or generally reduces the need for mutual monitoring, both pre-contractual and post-contractual. A consequence of this is that the formal contracts - to the extent that there are formal contracts- that bind the members of the group need not be as complete as when opportunistic behavior is an ever-present eventuality. On these grounds, Williamson and Ouchi distinguish between “hard” and “soft” contracting:

Under hard contracting, the parties remain relatively autonomous, each is expected to press his or her interests vigorously, and contracting is relatively complete. Soft contracting, by contrast, presumes much closer identity of interests between the parties, and formal contracts are much less complete. This is the clan-type management style.⁹

The possibility of soft contracting among clan members is surely one explanation for the efficiency of the clan form: its capacity to economize on haggling costs. However, there is a second consideration, arguably of even greater importance, with regard to efficiency: economizing on information flows among members. One source of performance ambiguity is that members do not share the same knowledge about what to do and how to do it. According to Wilkins and Ouchi, “clan members may share general orientations, but not necessarily specific knowledge.”¹⁰ In fact, a major strength of the clan form is that action does not have to follow the centralization of the information possessed by members. For given goal congruence, clan members trust each other that whatever action they take based on whatever knowledge they possess will ultimately, given serial equity, be beneficial for all.

⁸ That Ouchi has in mind a situation with “history” is evident from the fact that he goes on to claim that “a clan will emerge only if there is a strong *social memory*.” [emphasis added], Ouchi, “The M-Form Society,” 27-28.

⁹ Williamson and Ouchi, “The Markets and Hierarchies,” 361.

¹⁰ Wilkins and Ouchi, “Efficient Cultures,” 471.

These considerations are especially relevant when new knowledge is taken into account. A clan, unlike a formal contract, is not created at a specific point in time. Therefore, not only do the members of the clan know different things at every moment but also each of them learns new things, which they do not have to share with other members. Yet, the whole membership stands to gain by the fact that every member learns and is both free and encouraged to use this new knowledge, independent of the others. Moreover, although information does not have to circulate much among clan members, in an important sense it always stays within the clan, for members operate on the conviction that all new knowledge that each one of them obtains will be used for the benefit of the group as a whole, rather than for personal benefit.

Of course, all clan members have an incentive to see to it that the clan is maintained. This is achieved as long as agents continue to suppress any urge to act opportunistically for, as Ouchi observes, “any tendency towards opportunism will be destructive, because the close auditing and hard contracting necessary to combat it are not possible in a clan.”¹¹ Clans are, therefore, extremely fragile entities. What are the circumstances that may bring about the clan’s demise? This will happen as soon as clan members are not assured of remuneration that is “serially” over and above their opportunity returns. Thus, members are bound to act opportunistically as soon as they stop being afraid that their advantage will be diminished by such action.

Constructing the Concept of the “Market-embedded” Clan. As noted, in the literature the clan concept is treated mainly as a substitute for hierarchy. However, we can draw a useful distinction between two clan types: the organization-embedded and the market-embedded clan. The former refers to a group whose members occupy different but consecutive layers in a corporate organization.¹² In a market-embedded clan, by contrast, all transactions between members as well as non-members are carried out over a market interface.

We can define the analytical concept of the market-embedded clan by denoting the traders supplying a market by M . Then there will be a subset, m , which comprises all elements of M that belong to the clan. Every member of m will transact both with other members and with non-members. Nevertheless, the fact that a clan exists means that, somehow, the transactions among members differ in important respects from those with non-members. Ouchi offers some hints on the existence of market-embedded clans, although he does not use the phrase. His paradigmatic case is the informal revolving-credit societies of the Japanese American

¹¹ Ouchi “Markets, Bureaucracies, and Clans,” 137.

¹² The limiting case being, of course, that the whole organization is a clan. This was indeed Ouchi’s view of Japanese corporations: the Z organization as he described it.

and of the Chinese American communities, known as *Tanomoshi* and *Hui* respectively. He says:

A *Tanomoshi* or *Hui* typically consists of about one dozen individuals... Once a month, the group gathers at one member's home for dinner, and each person brings with him a prespecified sum of money, perhaps \$ 1,000. The host of the evening keeps the whole sum.... The group meets in this fashion for twelve successive months until each person has put in \$12,000 and has taken out \$12,000. In this manner, people who would have great difficulty saving the whole sum of \$12,000 are able to raise capital.¹³

According to Ouchi, the existence of these clan-like arrangements ensures that business people from both Asian American communities have better access to credit, which in turn explains why the number of their small businesses in the American economy seems to exceed their fraction of the population as a whole. However, these revolving-trade societies differ from the general concept of the market-embedded clan in two important respects. First, members and nonmembers differ only in the latter's access to credit; and there is no implication that their behavior differs in their respective markets or in the organizational forms they will adopt. Second, the relations among members are not typical market relations, as each member is obliged to deal exclusively with the other eleven individuals who make up the clan.

In order to construct the concept of the market-embedded clan, we must consider, in turn, all characteristics of clans. To begin with equity, in organization-embedded clans, the group may institute a set of redistribution mechanisms among its members to ensure serial equity. Given the overwhelming focus on employment relations in the literature, serial equity must be thought of as coming about through the decisions of the party responsible for establishing the remuneration of members. In market-mediated relations, however, this is not possible; so how can serial equity be assumed to hold in this case?

One way to ensure serial equity would be through *ex post* redistribution to clan members of market-determined returns, based on a pre-agreed upon rule. In effect, this would transform the clan to a trust-like arrangement. Unlike a typical trust, however, the purpose of which is to redistribute monopolistic rents, we have assumed that the clan comprises m traders who carry on their transactions in competitive conditions (recall that $m < M$, that is, the total population of traders). Therefore, the larger m is, the greater the haggling costs for setting up a trust-like arrangement. More importantly, because there are no monopolistic rents to be redistributed, the arrangement will be prone to free rider problems and, thus, unviable. The only alternative through which serial equity can be ensured is when redistribution takes place *ex*

¹³ Ouchi, "Theory Z," 85-7

ante rather than *ex post*. Therefore, what are actually redistributed are profit opportunities, not market returns. Members of *m* can thus feel assured that, in the long-run, they will have better access to profit opportunities than any element of the *M-m* set. Similarly, we expect that partnerships among the members of *m* will be much more common than partnerships with non-members, not just because of reasons of trust and common cultural backgrounds, but also because of the need to promote serial equity.

Reciprocity, we have seen, is the means for promoting serial equity within the clan. However in the case of market-embedded clans, even more so than in organization-embedded clans, reciprocity refers not to exchanges between two specific agents but, rather, to members' assurance that, sooner or later, other members will bring entrepreneurial opportunities to their attention and that they will be asked to join a partnership to exploit these opportunities. An important aspect of this reciprocity is that members feel obliged to rescue others in distress, expecting, of course, that their peers will behave in the same manner towards them should the need arise. Thus, unlike organization-embedded clans, whose members are linked by an employment relation, the market-embedded clan consists of independent traders, who are constantly at the mercy of market forces. This aspect of reciprocity is much more important for clan members than altruism or of social security. It is an entirely rational strategy that ensures the continuation of the clan and thus, for each member, the maintenance of a constant pool of potential partners.

These considerations have important implications for the notion of goal congruence. Given that we consider agents transacting across a market interface, profit-maximization must be thought of as the major goal mobilizing the actions of members of *m* as well as of non-members. On the other hand, assuming that *M* is significantly greater than *m*, the possibility of collusive action by clan members cannot significantly affect overall competitiveness. Therefore, the immediate goals of market-embedded clan members must be considered identical to the goals of any market participant, clan member or not. On these grounds, it would seem that the concept of goal congruence is irrelevant in the context of market-embedded clans. However, there is one obvious goal that the members of *m* share, which non-members do not: clan maintenance, which is itself a goal.¹⁴

This reconfirms the importance of members' identity. However, unlike the case of organization-embedded clans, where we think we know the identities of members through membership in the same organization, in market-embedded clans there is no organizational encasement to

¹⁴ Ouchi "Theory Z," 87, makes exactly the same point: "Although the individuals in a *Hui* or *Tanomoshi* do not share complete goal congruence, they are at once largely committed to a congruent set of goals which have to do with maintaining the social structure of the community...."

ensure mutual acquaintance. Two corollaries follow. First, the accreditation mechanism is much more important for the existence and the maintenance of the clan in the market-embedded case than in organization-embedded clans. Of course, the question remains about what accredits this mechanism. Thus, the second corollary is that, to ensure credibility, this mechanism must be the product of a long historical process during which its credibility as an accreditation mechanism has been established.¹⁵

Credibility hinges on the mechanism's past effectiveness in controlling membership in ways that ostracize those who have behaved in unacceptable ways according to the unwritten rules of the clan. In order to be effective, a regime of sanctions must be multi-party enforced, implying that trust among members is so strong that individuals generally accept other members' judgment, thus eliminating the need for any formal process of establishing guilt. However, because excluding a trader from membership of m cannot exclude him or her from the market at large (that is, the individual remains a member of the $M-m$ set) the sanctions system is limited in its effectiveness. In fact, the continuity of the clan ultimately depends on the self-restraint exhibited by members, in which case the clan can assure members of positive rents.

What is the source of the clan's superior efficiency? We can identify at least three. The first is that clan members have better access than non-members to knowledge of profit opportunities. We have seen that this arises from the *ex ante* character of serial equity in the case of market-embedded clans. The second source is the ease of coordination that arises from trust, the common knowledge pool, and, more generally, the common cultural background shared by clan members. The final source of efficiency is clan members' superior (compared to non-members) ability to spread risk. This stems from the function of the clan with respect to members in distress, and, more importantly, from the ease with which a member may find partners for parallel ventures.

Organizing Transactions in the Context of "Market-embedded" Clans. We argue that the characteristics of market-embedded clans must have systematic implications for the ways in which clan members will attempt to organize their transactions. Thus, we expect to find significant differences between the business organizations set up by clan members and those by non-members. Therefore, all attributes of business organizations in the context of market-embedded clans must be understood as important differences from the non-member context.

Given the high intensity of trust relations, the common cultural background, and the ease of communication among clan members, we

¹⁵ Again, Ouchi makes the same point with regard to the revolving-credit societies of Asian Americans: "What is critical is that there be a communal memory... and that the community have a stable membership." Ibid.

expect that the organizations they set up will look more like partnerships than corporate organizations with merged ownership of non-human resources. Low opportunism and a relatively common business conception¹⁶ reduce the need for mutual monitoring among partners, which, in turn, negates the major advantage of the corporate formula. There is, however, an even more important corollary of the fact that partnership is the dominant form of organizing business. Partnerships can be more easily dissolved and reconstituted with different partners or for the pursuit of different business objectives. High-intensity trust relations and, very importantly, the abundance of like-minded potential partners among clan members, make the dissolution and reconstitution of partnerships an option that avoids long-term commitment of resources in a corporate firm. Given these insights, we expect that the business organizations (that is, partnerships) that clan members set up will be rather volatile, in the sense that agents will tend to enter into partnerships for specific projects rather than general business, the limiting case being a specific partnership per project.

Next, we expect the degree of hierarchy in these organizations to be generally rather low. The common cultural background, the high intensity trust relations, and the common norms and business practices among clan members reduce the need for a center of command in each venture that assigns tasks and monitors the members' performance. Moreover, to the extent that there is hierarchy, we would expect it to be volatile, rather than a reflection of a standard social division of labor. Therefore, we might find agent A in venture X to be subordinate to agent B, while we might find the exactly reverse hierarchical relation between A and B in venture Y, where both A and B are clan members. Therefore, getting the lead in a venture may be more a reflection of expertise or specific knowledge, understood and recognized by one's partners, than a permanent feature of that organization. Needless to say, organizations set up by partnerships among clan members and non-members will display none of these characteristics and, thus, have a standard hierarchical form.

Organizations set up by clan members will tend to be shallower than ones adopted by non-members. We expect to find, in effect, a generally low tendency towards vertical integration. Given the ease of establishing and dissolving partnerships, the existence of a wide pool of potential partners to choose from, and the trust and common cultural backgrounds among members, the major advantages of vertical

¹⁶ We draw the term from Ulrich Witt "Imagination and Leadership: The Neglected Dimension of an Evolutionary Theory of the Firm," *Journal of Economic Behavior and Organization* 35 (April 1998): 161-177; and Ulrich Witt, "Changing Cognitive Frames—Changing Organizational Forms: An Entrepreneurial Theory of Organizational Development," *Industrial and Corporate Change* 9 (Dec. 2000): 733-755.

integration according to standard transaction costs analysis,¹⁷ or analyses based on the notion of incomplete contracts,¹⁸ are abolished. Therefore, we expect to find that, in the context of market-embedded clans, vertically related activities will tend to stay independent, organized as partnerships among clan members.

However, there is a further reason why vertical integration is relatively obsolete in market-embedded clans. According to Richard Langlois, integration may be an efficient strategy not just because of opportunism and asset specificity, the reasons given in static transaction costs analysis, but also because of dynamic transaction costs.¹⁹ Such costs may be incurred in the future just because one cannot secure the required resources when they are actually needed. The notion of dynamic transaction costs is intimately related to new learning. Thus, one reason for vertical integration may stem from the fact that it ensures that any new knowledge acquired by the members at different levels of the organization stays within the overall organization. This is precisely what the clan achieves. Clan membership and the possibility of partnership relations with other members give each member access to new knowledge. Therefore, in the clan context, vertical integration becomes obsolete with regard to the dynamic transaction costs that arise from new learning by members.

Although a clan can be thought of as an extended family group, it is at the same time larger and more diverse than a family network. In the latter, the network links a number of families, with each family retaining its integral character. The clan, in contrast, links a number of individual agents, making it a denser group by definition. Of course, the historical origin of a clan may be a family network or even a single extended family. However, it can also be independent of families, as in the case of immigrant groups that come together based on the geographical region of their country of origin.²⁰ In either case, these considerations are important because they imply a much broader potential scope of activity for a clan than for an extended family or a family network. This obviously

¹⁷ See Oliver E Williamson, *The Economic Institutions of Capitalism* (New York, 1985), chapters 4 and 5, where vertical integration is viewed as springing in order to curb opportunism, especially in cases characterized by high asset specificity.

¹⁸ See: Sanford J. Grossman and Oliver D. Hart, "The Costs and Benefits of Ownership," *Journal of Political Economy* 94 (Aug. 1986): 671-719 and Oliver Hart, *Firms, Contracts and Financial Structure*, (Oxford, U.K., 1995).

¹⁹ Richard N Langlois, "Transaction-Cost Economics in Real Time," *Industrial and Corporate Change* 1 (Feb. 1992): 99-127.

²⁰ In fact, according to Ouchi "Theory Z," 86, "Japanese-Americans' membership in a *Tanomoshi* is limited by the geographical regions of birth in Japan, and by the region in Japan from which one's ancestors came. Among the Chinese-Americans, membership in a *Hui* is limited to those within the kinship network."

also has implications for the types of organizations that clan members may set up.

A Market-Embedded Clan in Action: The Chiot Clan and Nineteenth-Century Greek Diaspora Trading Companies

In the nineteenth century, and particularly in the last four or five decades before World War I, the scale and scope of international business significantly expanded. In particular, there was a proliferation of merchant enterprise in long-distance trade. The activities of some individual merchants evolved from the individual level into large multinational Trading Companies.²¹

We have chosen to concentrate on one historical example: the Trading Companies of the Chiot-Greek Diaspora. As was generally the case with nineteenth-century Trading Companies, although some grew enormously in size and degree of diversification, they never made the transition to the corporate formula. However, compared with Western Trading Companies, the Chiot-Greek Trading Companies of the Diaspora tended to be even less hierarchical, even more volatile organizationally, and even less dependent on direct family relationships. We demonstrate that this difference can be explained by the fact that Chiot-Greek Trading Companies were clan-based in contrast with Western Trading Companies, which were family-based entities.

The Wider International Context: Western-British Trading Companies. The great majority of Trading Companies (TCs) were Western European. Those that were not belonged almost exclusively to one of the Diaspora nations.²² Among the Western European TCs, the British were preeminent; they accounted for roughly two-thirds of Western TCs and had truly global scope compared with the French and Germans, the other

²¹ The phrase “Trading Company” is a recent one. Nineteenth century contemporaries used a variety of terms to describe Trading Companies interchangeably, such as merchants, agency house, and managing agency. By Trading Companies, following Geoffrey Jones, we mean firms engaged in international trade based in one country with activities in other countries, either through the formation of interlocking partnerships abroad, or through Foreign Direct Investment; see Geoffrey Jones, *Merchants to Multinationals British Trading Companies in the Nineteenth and Twentieth Centuries*, (Oxford, U.K., 2000), 13-4. Also, for a brief description of pre-nineteenth century Trading Companies, see Geoffrey Jones, *The Evolution of International Business An Introduction* (London, 1996), 149.

²² Both the Jews and Greeks were among the Diaspora with an important presence in the nineteenth century world of TCs. For the entrepreneurial networks of the merchants of Diaspora nations throughout the modern era see Ina Baghdiantz McCabe, Gelina Harlaftis, and Ioanna Pepelasis Minoglou, eds., *Diaspora Entrepreneurial Networks: Four Centuries of History*, (Oxford, U.K., forthcoming 2005).

two major European players in the field.²³ Well into the first decades of the twentieth century, British and other Western TCs took the form of family-based partnerships.²⁴

Contractual theories of economic organization usually assume that the major determinants of the degree of integration and hierarchy of any particular concern are efficient governance of vertical relations,²⁵ or size (defined as the volume of resources required for the production of a specific output).²⁶ On these grounds, and given the strong family element in TCs, we expect them to be of moderate size, moderate degree of integration, and low hierarchy. Yet, we have seen, the historical facts do not bear this out.

As the British case aptly demonstrates, especially since the 1870s TCs have grown to enormous size and diversified from trade intermediation into banking, transportation, manufacturing, and agriculture. With diversification, TCs became engulfed in investment groups or hubs. These provided concentrations of information, contacts, capital, and personnel. Thus, the traditional family-based TC acquired some of the advantages of the joint-stock system without losing control. A TC organized as a partnership acted as the parent organization of the investment group, but this involvement was concealed from the public. The firms in which the TC had a stake, some of which were joint stock companies, were, as Chapman observed:

...often registered abroad and run by junior partners or managers there, sometimes under quite different names and local legislation. It was a device that developed from various starting points to maintain effective economic power in a few hands, but its very size and diversity made it much more than a family business in the accepted sense.²⁷

Chapman's quote captures the essence of TCs as business organizations. Superficially, these entities displayed a minimum of integration and hierarchy, although their span of control extended over a range of vertically-related activities, usually in many consecutive stages.

²³ By British meaning that the headquarters of these TCs were in Britain, and that they were usually run by British merchants, although in some instances Anglo-German, or Jewish or even Greek merchants were heavily involved. Stanley D Chapman, "British-Based Investment Groups Before 1914," *Economic History Review* 38 (May 1985): 230-51. The British TCs extended all over the Globe, whereas the French were basically active in the Mediterranean and the German were present primarily in Latin America.

²⁴ Jones, "Merchants to Multinationals," 30-5.

²⁵ See Oliver E. Williamson "The Modern Corporation: Origins, Evolution, Attributes," *Journal of Economic Literature*, 19 (Dec. 1981): 1537-68.

²⁶ Harold Demsetz and Kenneth Lehn, "The Structure of Corporate Ownership: Causes and Consequences," in *The Economics of Property Rights*, ed. Svetovar Pejovich, (Cheltenham, 2001), 158-80 is a good example here.

²⁷ Chapman, "British-Based Investment Groups," 231.

This intricate set-up involved correspondents and agents in the hinterlands of faraway peripheral countries specializing in producing raw material and agricultural goods for the world market, agents in Western European ports, and so on. Each “vertical” activity was carried out by an independent organization (a partnership in most cases) where each unit enjoyed much leeway in its business dealings. However, these partnerships were based on networks of business associates that were intentionally created (and thus, closely monitored), usually linking together family concerns. The existence of a stable and closely-monitored network ensured that activities would be integrated, in spite of the fact that each was run by a seemingly independent entity. In turn, the ever-present hierarchy ensured this network characteristic, as illustrated by Chapman’s reference to the concentration of “effective economic power in a few hands.”

Therefore, although Western nineteenth-century TCs never made the transition to hierarchical corporations, their network structure allowed some of them to reach enormous size, a high degree of vertical integration and of diversification, and considerable (albeit informal) levels of hierarchy. However, while vertical integration and hierarchical control were ensured in an informal manner, permitting high flexibility in their business dealings, they came at a price. Indeed, recent research suggests that since the 1830s the more successful British TCs have been those that were more overtly hierarchical in structure.²⁸ Furthermore, the fact that these entities never transcended the status of private-family partnerships meant that their continuity was greatly impaired, as evidenced by their high mortality rates. The partnerships ended over time or with the deaths of the partners themselves.²⁹

Business Organization within the Greek Diaspora: The Chiot Clan. The heyday of TCs, as a form of international business organization, coincided with the golden age of the mercantile Greek Diaspora.³⁰ Circa 1780/1820 to 1900/1912, flourishing Greek Diaspora mercantile communities known as *paroikies* specialized in the long-distance maritime trade of staple

²⁸ Antony Webster, “An Early Global Business in a Colonial Context: The Strategies of Management, and Failure of John Palmer and Co. of Calcutta, c. 1800 to 1830,” paper presented at the BHC and EBHA joint conference, Lowell Mass., 26-28 June 2003.

²⁹ There is the example of Hills & Whishaw, one of the leading grain exporters in St. Petersburg in the 1870s. However, in 1879, the firm’s capital was reduced as a result of the will of a deceased senior partner, and in 1882 the firm failed; see Stuart Thompstone, “British Merchant Houses in Russia before 1914,” in *Economy and Society in Russia and the Soviet Union Essays for Olga Crisp*, ed. Linda Edmondson and Peter Waldron (London, 1992), 114-6.

³⁰ Mercantile because although this Diaspora based its activities on long-distance trade it was also extensively involved in related activities such as banking, shipping, and insurance.

goods and financial intermediation spread from Alexandria, Constantinople, Odessa, Smyrna, and Taganrog in the East, to Liverpool, Livorno, London, Marseilles, Paris, and Trieste in Western Europe.³¹ Within these *paroikies*, the largest, wealthiest, and most powerful groups were the merchants originating from Chios.³² Enjoying a natural monopoly in the production of mastic gum, an edible gum oozing from the trunk of the *Pistacia lentiscus* shrub, the island of Chios has been engulfed in the world of long-distance trade since the twelfth century.³³ The origins of the Chiot mercantile Diaspora are found in the eighteenth century, when successful Chiot merchants, after first migrating to Smyrna and Constantinople, branched out and disseminated outside the Ottoman Empire.³⁴

³¹ In the eighteenth century, the Greek mercantile Diaspora had two strains: maritime and land transport-based. The second spread throughout the Balkans and Central Europe, and was probably the more important of the two at the time. However, in the nineteenth century, the maritime Diaspora became much more significant.

³² Dimitrios Vikelas, *Apanta* [Complete Works], (Athens, 1908 republished 1997) vol. 1, pp. 192-3; Mikes Syriotis, *O Gladston peri Chiou* [Gladstone on Chios], *Chiaka Hronika* (Chios, 1911); Konstantine Amantos, *To Emporion ton Chioton pro tou 1821* [The Commerce of the Chiots before 1821], (Athens, 1957), 183; Gelina Harlaftis, "Emporio kai Naftilia ton 190 Aiona: To Epiheirmatiko Diktyo ton Ellinon tis Diasporas, I Chiotiki Fasi (1830-1860)," [Trade and Shipping in the Nineteenth Century: The Entrepreneurial Network of the Diaspora Greeks, The Chiot Phase (1830-1860)], *Mnimon*, 15 (1993): 69-127.

³³ Under Ottoman rule the island was granted semi-autonomy and although the trade in mastic was in the hands of the rulers, the Chiots showed significant activity in the international trade of silk goods. Before the Ottoman occupation in 1566, the island's natural monopoly in the production of mastic gum made it an attractive "gem" to the colonially-expanding Italian maritime powers. At first under the Byzantines, the Venetians twice briefly occupied the island (1124-5 and 1171-2). In 1261 the Byzantine Empire granted to the Genoese the right to set up a commercial station in Chios. Between 1304 and 1329 the Genoese Zaccaria (clan) occupied the island. Under formal Genoese rule (1346-1566) Chios became an entrepot center for the trade in alum and mastic, which expanded significantly, and came under the monopolistic control of *Mahona di Scio*. See Philip P Argenti, *The Occupation of Chios by the Genoese and Their Administration of the Island (1346-1556)*, (Cambridge, U.K., 1958).

³⁴ The first, rather short-lived, large expatriate Chiot Diaspora community was established in Amsterdam. Stamatis Petrou, *Gramata apo to Amsterdam*, [Letters from Amsterdam], ed. Philippos Iliou, (Athens, 1976); Elena Frangakis-Syrett, *Oi Chiotas Emporoi stis Diethneis Synallages (1750-1850)* [Chiot Merchants in International Exchange (1750-1850)] (Athens, 1995), 21-3; and Maria Christina Chatzioannou, *Oikogeneiaki Stratigiki kai Emporikos Antagonismos, O Oikos Gerousi ton 190 Aiona* [Family Strategy and Commercial Competition: The Geroussi Merchant House in the Nineteenth Century] (Athens, 2003), 61.

In the nineteenth century, the dazzling wealth and multinational business operations of the Chiot Ralli, Petrocochino, Rodocanachi, and Scaramanga families made them internationally known, as lesser “Rothschilds.” These and other Diaspora Chiots,³⁵ regardless of whether their “headquarters” were in the West, the Ottoman Empire, or other areas of the East, had a uniform style of doing business and of organization, which we describe as the “Chiot Method.”³⁶ This business method took shape in the early 1800s and provided the prototype for nineteenth-century Greek Diaspora merchants irrespective of whether or not they originated from the island of Chios.³⁷

The basic feature of the “Chiot Method” that also marked the distinctiveness of Greek Diaspora TCs vis-a-vis Western TCs, was that the merchants constituted a market-embedded clan, which we call the Chiot Clan. This institution has shown remarkable resilience over time. Following the demise of the Greek mercantile Diaspora circa World War I (1920s), the “new” shipping Diaspora that emerged from its ashes, has displayed market-embedded clan-like features, although the Chiot element is no longer so predominant.³⁸

The Chiot Clan at its peak in the mid nineteenth century, as Gelina Harlaftis aptly demonstrates, roughly numbered sixty families, the members of each of them being dispersed throughout the numerous Greek Diaspora *paroikies*.³⁹ The core group of this market-embedded clan

³⁵ Among the other better known Diaspora Chiots to have multinational business operations, as well as family members dispersed among a number of countries are: Avierino, Calvocoressi, Galati, Mavrogordato, Negreponte, Petrocochino, Ralli, Rodocanachi, Scaramanaga, Scylitsi, Sevastopoulo, Vlasto, and Zizinia, all of whom belonged of course to the Chiot nobility. Philip P. Argenti, *Libro d'Oro de La Noblesse de Chio* (London, 1955).

³⁶ We have adapted the term “Chiot Method” from the term “Chiot Phase” which Gelina Harlaftis employed to describe the heart of the network and business methods of Greek Diaspora merchants between the 1830s and 1860s in Harlaftis “Trade and Shipping.”

³⁷ Contemporaneous observers recognized that the Chiots’ business method served as a prototype. Apart from Vikelas “Complete Works,” 192-3, see hand written notes of (the political-business peoples’ biographer) Konstantine Vovolinis, on the newspaper article of N. Spandoni, “The Cephallonians and their Colonies,” *Estia*, Athens, 22 Apr. 1911. Vovolinis Archive, File 411, M.S. Korgiallenios. Indeed, this last text directly alludes to the notion of a commercially distinct Chiot “Method.”

³⁸ Harlaftis, “Trade and Shipping,” 119.

³⁹ Harlaftis, “Trade and Shipping,” 72-90. See also for example, Christos Hadziiossif, “La Colonie Grecque en Egypte (1833-1856)” (Ph.D. diss., University of Sorbonne, Paris, 1980), 254, 257; Anna Mandilara, “The Greek Business Community in Marseille, 1816-1900: Individual and Network Strategies” (unpublished Ph.D. diss., European University Institute, Florence, 1998), 135-148, 217-230; and Despoina Vlami, *To Fiorini, To Sitari kai I Odos tou Kipou*,

consisted of thirty Diaspora Chiot families⁴⁰ almost all of which belonged to the island's nobility, a mixture of descendents from the aristocracy of the Byzantine Empire and Genoa, notorious for its endogamous and ritual kinship practices.⁴¹ This nobility had substantial experience in long-distance trade. Through the *Mahona di Scio*, which operated under the formal rule of the clannish Genoese (1346-1566), it became well-acquainted with the practice of organizing large-scale business operations through the coordination of multiple and interlinked temporary associations of a *commenda* and *societas maris* type (which allowed the spread of risk, flexibility, and partnerships from a closed circuit).⁴²

The noble Chiot Diaspora merchants ensured the Clan's credibility as an accreditation mechanism. They provided the Chiot Clan with historical depth and leadership, ensuring the maintenance of the common cultural background and business norms of the Clan.⁴³ However, not all

Ellines Emporoi sto Livorno 1750-1868 [Greek Merchants in Livorno 1750-1868] (Athens, 2000), 147-9.

⁴⁰ Again, Harlaftis, "Trade and Shipping," 72. For references to the clannish characteristics of the Chiot core group, see Stanley D. Chapman, "Ethnicity and Money Making in 19th Century Britain," *Renaissance and Modern Studies* 38 (1995): 20-37; and Gelina Harlaftis, *A History of Greek owned Shipping, the Making of an International Tramp Fleet, 1830 to the Present Day*, (London, 1996), 51-55.

⁴¹ The practice of endogamy and ritual kinship within the Chiot nobility was maintained among the Diaspora Chiot families as the archival material on the Greek Diaspora *paroikies* of Alexandria, Livorno, London, Marseille, Odessa, Trieste, and other places, well testifies. Hadziiosif, "La Colonie Grecque en Egypte," 364-7; Olga Katsiardi-Hering, *I Elliniki Paroikia tis Tergsetis, 1751-1830*, [The Greek Expatriate Community in Trieste, 1751-1830] (Athens, 1986), vol. 1, pp. 356-8, and vol. 2, p. 428; Vlami, "Greek Merchants in Livorno," 443, 454; Olympia Selekou, *I Kathimerini Zoe ton Ellinon tis Diasporas, Dimosios kai Idiotikos Vios, 190s-arhes tou 200u Aiona*, [Everyday Life of the Diaspora Greeks, Nineteenth to Beginning of Twentieth Century] (Athens, 2004), 40.

⁴² Argenti, "The Occupation of Chios"; Melvin M. Knight, *Economic History of Europe to the End of the Middle Ages*, (Boston, 1926), 117, 123-4; Steven A Epstein, *Genoa and the Genoese 958-1528* (Chapel Hill, N.C., 1996).

⁴³ The members of the Chiot Clan had a powerful position in the Diaspora *paroikies*. Some became Consuls of Greece proper or Foreign Powers. Many important Chiot merchants played an active role in the local organizations of the Greek Diaspora trade organizations, the local churches, the Greek commercial schools, and philanthropic organizations. Such activities did not stem from altruism and piety, but from a rational need to enhance the economic functions of the clan. For example for the case of Georgis Zizinia in Alexandria, see: Haddziiosif, "La Colonie Grecque." For other such cases, see: Harlaftis, "Trade and Shipping," 98; Ioanna Pepelasis Minoglou, "The Greek Merchant House of the Russian Black Sea: A 19th century example of a Traders' Coalition," *International Journal of Maritime History* 10 (June 1998): 102-3; Selekou, "Every day Life," 27.

members of the Clan were Chiot by origin. The non-Chiot members were nevertheless “Chiot” by extension-adoption: They were usually (but not necessarily) related to Chiot merchants through marriage or “ritual kinship” or they had at least spent a trial period of tutelage in a Chiot TC or at least enjoyed the “support” of a Chiot merchant.

Membership of the Chiot Clan was tightly monitored. Although there was an emphasis on formal commercial education, a trial period was expected during which “future” merchants—even the scions of wealthy merchant families—would act as trainees/assistants in a Chiot TC, often living in the house of a “patron” merchant and participating in his family life. This monitoring process tested the character of the younger members of the clan, and shaped their business “conception” to conform to a common cultural background emphasizing the love of hard work, frugality, piety, discretion, honesty, humility, and obedience to elders.⁴⁴ The unwritten business rules/norms of the Clan can briefly be summarized in the triptych of trust, loyalty, and reciprocity. This triptych was not purely an altruistic or ethical construct; it was extremely rational from a business point of view. Entrance into the Chiot Clan was no easy matter. Not just any merchant of the Greek mercantile Diaspora could attain the privilege of becoming a Clan member: an envied and much sought after position.⁴⁵

The institution of the Chiot Clan, which, as noted, served as an accreditation mechanism by monitoring *ex ante* serial equity and reciprocity, provided its select members with superior efficiency compared with non-Clan merchants. First, the Chiot Clan offered its members better access to knowledge of profit opportunities through “cost reducing” information services. It guaranteed the exchange of exclusive market information, regarding the activities of its members, other Greek or foreign merchants, the prices of goods and foreign exchange, and so on.⁴⁶ Second, it ensured a common cultural background and served as a pool for prospective “trustworthy” business collaborators. In a closed circuit where everyone knew everyone else, a merchant’s most valuable asset was reputation. Within the clan, by establishing *ex ante* a linkage between past conduct and a future utility stream, there was a low level of post-

⁴⁴ Andreas Syngros, *Apomnimonevmata* [Reminiscences], ed. Alkis Angelou and Maria Christina Chatzioannou (1907/8; Athens, 1998) vol. 1, 95-122; and Vikelas, “Complete Works,” vol.1, 54, 108, 119-123, 188.

⁴⁵ Among the non-Chiots who became important members of the Chiot Clan, were Zarifis and Zafiropoulos (who collaborated closely with the Chiot Syngros) in Constantinople and Gerousis (a close collaborator of Rodocanachi) in Smyrna and Trieste; see Harlaftis, “Trade and Shipping,” 89; and Chatzioannou, *Family Strategy*, 64, 97, 124.

⁴⁶ For the importance of the circulation of exclusive market information and the importance attached to keeping information secret see references to the Petrocochino correspondence in Mandilara, “The Greek Business Community in Marseille,” 181-5.

contractual opportunism among partners and agents, many of whom were based in distant locations. Among Clan members, there was some fraud and dishonesty; it was exposed, however.⁴⁷ The Clan punished members who practiced fraud or who adopted unconventional business practices by ostracizing them.⁴⁸ Trust, the common knowledge pool, and common cultural background allowed for the efficiency gain of “ease of coordination” and soft-contracting among members.

Third, the Clan enhanced the ability of merchants to spread risk. In part, this stemmed from the Clan’s functions with respect to members in distress. Operating as an informal banking and insurance organization, when a merchant faced financial difficulty or even a crisis, the other members of the Clan (and especially the Chiot, who were well known for their capital liquidity) acted as guarantors or provided financial assistance.⁴⁹ The principle of reciprocity and mutual assistance among members was a means for the promotion of serial equity within the clan,

⁴⁷ Mandilara, “The Greek Business Community in Marseille,” 131; Vasso Seirinidou, “Oi Ellines sti Vienni 1750-1850” [Greeks in Vienna, 1750-1850], (Ph.D. diss., University of Athens, 2002), 187-190.

⁴⁸ There are two famous examples of merchants ostracized from the Clan for “peculiar behaviour,” and both of whom failed in business. The first was Chiot Adamantios Korais, who as a young “aspiring” merchant lived in Amsterdam in the 1770s, and in his mature years became the main figure of the Greek enlightenment. The explanations that have been given for his “ousting” from the Clan are that he dared to borrow funds from Westerners, tried to cut the middlemen out in his commercial activities, and even attempted to establish a manufactory for the production of the cloth material he exported from Amsterdam. The second case is that of Stephanos Xenos, who through marriage was related to a powerful Chiot family. His business operations were based in nineteenth-century London and his basic “treason” was that he financed the building of his shipping empire through outside (i.e., British sources) and not the traditional Chiot TCs. He also, in a non-Chiot manner, neglected to build an international network of correspondents agents from the Clan; see Petrou, “Letters from Amsterdam,” introduction and especially 41-2, 49; Stefanos Xenos, *Depredations on Overend, Gurney and Co. and the Greek Oriental Steam Navigation Company*, (London, 1869); Vikelas, *Complete Works*, 212.

⁴⁹ In general there appears to have been cooperation among the members of the Chiot Clan as they “self-financed” their trade by discounting and circulating bills of exchange between their TCs. For details on these activities see: Hadziiossif, “La Colonie Grecque en Egypte,” 265 and Christos Hadziiossif, “Banques grecques et banques européens au XIXe siècle: le point de vue d’Alexandrie,” in Georges B. Dertilis, ed., *Banquiers, Usuriers et Paysans Resaux de credit et strategies du capital en Grèce (1780-1930)* (Paris, 1988), 158-9; and Ioanna Pepelasis Minoglou, “Ethnic Minority Groups in International Banking: Greek Diaspora bankers of Constantinople and Ottoman State Finances c. 1840-1881,” *Financial History Review* 9 (Oct. 2002): 129.

and it concerned not only purely financial matters, but also issues of a legal and notarial nature.⁵⁰

The Clan enabled merchants to spread risk in one more way. The accreditation mechanism allowed a merchant to take advantage of new profit opportunities, be highly flexible, and in a constant state of renewal. The merchant by belonging to this market-embedded clan was at the time “peripatetic” and “polytropos.” “Peripatetic” because individuals would rarely spend their whole working lives in one place. Moving within the internationally dispersed Chiot Clan, through multiple and shifting *ad hoc* collaborations with other Clan members, they followed geographical shifts in the trade routes, linking Western Europe with the Eastern Mediterranean-Black Sea Area. “Polytropos,” a man of many resources and ways, merchants simultaneously combined the long-distance maritime trade in bulk cargoes with formal and informal banking, shipping, and, less often, manufacturing and land cultivation. Moreover, taking advantage of high intensity trust relations and the abundance of like-minded potential partners within this market-embedded Clan, merchants would easily find partners for various ventures. They would often have different combinations of partners, for “unrelated” ventures, most of which ran in parallel. In fact, they would set up new *ad hoc* partnerships for every new specific entrepreneurial venture pursued.⁵¹

This practice of multiple and shifting *ad hoc* collaborations lay at the heart of the Chiot method and accounts for the organizational volatility of the Chiot TC. Which brings us to the analysis of the distinctive features of the Chiot TC vis-a-vis Western Trading Companies.

Chiot Diaspora Trading Companies. Throughout the golden age of the Greek mercantile Diaspora, the Chiot TCs formed the elite of Greek Diaspora Trading Companies. Not only because of their wealth and multinational spread which persisted even after the circa 1870 rise of the importance of the Ionian merchants and their TCs within the Greek Diaspora, but also because Chiot TCs continued to operate as prototype business organization within the Greek mercantile Diaspora. The newcomer Ionians sought to intermingle with the Chiot TCs, to penetrate and copy many of the business methods of the Chiot Clan.⁵² Thus, the

⁵⁰ Frangakis-Syrett, “Chiot Merchants,” 39-40; Vassilis Kardasis, *Ellines Omogeneis sti Notia Rossia 1775-1861*, [The Greek Diaspora in Southern Russia 1775-1861], (Athens, 1998), 136-7; Vikelas “Complete Works,” 194; Vlami, “Greek Merchants in Livorno” 193-4; and Chatziioanou, “Family Strategy,” 127-8.

⁵¹ Old partners and collaborators would not necessarily be dropped as new ones entered the scene. See Syngros, “Reminiscences,” in particular vols. 1, 2, and the first chapters of vol. 3. Many such examples are portrayed in Vlami, “Greek Merchants in Livorno,” 187-190; Katsiardi-Hering, *The Greek Expatriate Community in Trieste*, 421-431; and Seirinidou, “Greeks in Vienna,” 173-9. Also, see Chatziioanou, *Family Strategy*, 34.

⁵² Harlaftis, “A History of Greek-owned Shipping,” chapter 3.

Chiot TCs reflected the general trends in Greek Diaspora TCs. Like its Western counterpart, the Chiot TC was organized as a general or limited-liability partnership and never made the transition to the corporate form, in spite of its large size and extensive diversification. However, there were important differences between the distinctive characteristics of the Chiot TC and the Western TC.

First, although, Chiot merchants had family members at the heart of their TCs, they also included others as partners and agents, taking advantage of the high-intensity trust relations among the Clan. Thus, compared to Western TCs, the Chiot TCs were less dependent on direct family relationships.

Second, in contrast to Western TCs linking Western Europe with the Eastern Mediterranean-Black Sea Area, the Chiot TCs, by organizing agency relations through the Clan, did not have to rely on outsider-agents.⁵³ Instead, they were able to penetrate the market at both ends, reduce the cost of trade, and attain efficiency gains, by establishing their own branches and sub-branches along the trade route. The Chiot TCs members were able to penetrate elite institutions in the large commercial ports and depot centers, such as becoming members in the Baltic in London,⁵⁴ or in the Chambers of Commerce in Livorno, Marseilles, and the Borsa of Trieste.⁵⁵ Through the existence of agents in the local producing hinterland in the Black Sea and Sea of Azov areas, Asia Minor, and Alexandria, the Chiot TC was able to take advantage of the peasantry's need for cash by pre-purchasing crops and providing usurious loans.⁵⁶

Third, the Chiot TC compared to the Western TC tended to be a more volatile, less hierarchical and shallower organization. Far removed from the rigid structure of a proper firm, the Greek Diaspora TC looked

⁵³ The British TCs set up branches for their operations outside Europe. In the periphery of Europe and the Eastern Mediterranean-Black Sea Area, they usually had correspondents instead of branches, especially before the 1870s. For the branches of leading British TCs in Russia, see Thompstone, "British Merchant Houses," 123.

⁵⁴ In 1886 among the Greeks in the Baltic Exchange, we find members from the following noble Chiot families: Agelasto, Argenti, Vlasto, Galati, Damala, Zizinia, Mavrogordato, Petrocochino, Rodocanachi, Sevastopoulo, Scaramanga, and Scylitsi. Of the total Baltic membership, 8% were Greek; see Harlaftis, "A History of Greek-owned Shipping," 58.

⁵⁵ For instance, see for Marseilles, Mandilara, "The Greek Business Community in Marseille," 367-8; for Livorno, see Vlami, "Greek Merchants in Livorno," 207, 210-1 and for the Borsa Chamber of Commerce of Trieste; see Katsiardi-Hering, *The Greek Expatriate Community in Trieste*, vol. 2, pp. 445-7.

⁵⁶ Susan Fairlie, "The Anglo-Russian Grain Trade 1815-1861" Unpublished (Ph.D. diss., University of London, 1959), 274; Hadziiossif, "La Colonie Grecque en Egypte," 262-272; Traian Stoianovich, "Between East and West: The Balkans and Mediterranean Worlds," in *The Greeks and the Sea*, ed. S. Vryonis (New Rochelle, NY, 1992), 324, 334; and Frangakis-Syrett, "Chiot Merchants," 58-9.

more like a loose-amorphous entity. Chiot merchants would tend to enter into partnerships for specific projects rather than general business, the limiting case being a specific partnership per project. As a result, the Chiot TC, during its lifetime would “mutate,” ever-changing, either in the combination of partners, its name, its headquarters, its objective, or in all these together. Partners would come and go. As new projects arose, they would be implemented through the formation with other members of the Clan (outsiders to the specific Chiot TC) of *ad hoc* formal or informal partnerships either by the TC as an entity, or by a by a specific branch, or individual partners and agents of the specific TC.

A closer look at the major organizational features of the Diaspora TCs reveals the following combination of volatility, low hierarchy, and shallowness. The interrelationship among branches took various shapes. It was usually the case with Western TCs that one of the international branches of the TC acted as the head office, as did, for example, the “Ralli Bros.” More often, there was limited hierarchy, in that there was no head office and the international branches were equal associates: legally autonomous, yet simultaneously interdependent, because each “branch” would act as an agent for the other branches, for example, the Rodocanachi TC. Each of its international “branches” had expanding autonomous entrepreneurial interests and a different name, indicating the variety of alliances involved.⁵⁷

Over time, there were shifts in the balance of power and realignments among the international branches. This was particularly obvious during times of crisis. For example, when during the Crimean war the top Chiot merchants of Odessa lost their leading position in the city’s grain trade, in some instances, the London “branches” of Greek Diaspora TCs lost their interest in their Russian counterparts, while the Odessa-based Chiot TCs shifted the focus of their operations towards the Sea of Azov area. It was the high degree of fluidity that allowed the Chiot TCs established in Holland, with the closure of Dutch ports between 1780 and 1782, to shift the focus of their operations to Trieste.⁵⁸

⁵⁷ Pepelasis Minoglou, “The Greek Merchant House of the Russian,” 85-9. Other scholars discussing the organization of the branches of the Rodocanachi and other Greek Diaspora TCs notice similar patterns. See Christos Hadziiossif, “Issues of Management and Sovereignty in Transnational Banking in the Eastern Mediterranean Before the First World War” in *Modern Banking in the Balkans and West-European Capital in the Nineteenth and Twentieth Centuries*, ed. Kostas P. Kostis (Aldershot, U.K., 1999), 121, 213-5; Kardasis, “The Greek Diaspora in Southern Russia,” 205-211; and Vlami, “Greek Merchants in Livorno,” 182-5.

⁵⁸ Frangakis-Syrett, “Chiot Merchants,” 34. There are of course plenty of other examples of shifts to new areas with rising prospects. For two such cases see: Seirinidou, “Greeks in Vienna,” 178-9, who describes the “gradual moving out” of the Chiot TCs from Vienna in the 1830s and their shift to the ports of the Mediterranean, the Black Sea and Britain. Also, for the gradual moving out of

However, even in the cases where an exogenous shock was not involved, there was fluidity. An ex-international branch might cut itself off from the parent TC (as was the case with the Rodocanachi branch in Marseille) or it might evolve into a headquarters. Indeed, in the case of the Ralli Bros, the central headquarters were originally in Marseille, but the London branch became the headquarters in 1827, and the Marseille “Mother Company” was transformed into a branch.⁵⁹

Moving to the local level, branches were not always “formal” entities, there often being a partial or exclusive preference for renewable, *ad hoc*, short-term, and shifting alliances with outsider consignees, who were either relatives or other members of the Chiot Clan.⁶⁰ Notably, in one specific port it was not unusual for two independent TCs to join forces and set up a branch together.⁶¹ Alternatively, a TC would simultaneously have a formal branch and an informal branch or correspondent with another Chiot TC. For example, in 1886 in Taganrog the Scaramanga TC had a formal branch by the name “A. Scaramanga,” coexisting with two partnerships formed with other members of the Chiot Clan: “Scaramanga Manousir and Co,” and “J, Scanavi and Scaramanga.”⁶²

As the Chiot Diaspora TC expanded, its borders became more permeable, making it more volatile and shallow. The number of local and international branches increased. In parallel a web of opportunistic “external” collaborations were formed with other TCs and individuals

Constantinople of Greek Traders cum merchant bankers in the 1880s, with the rise of Western competition in the city, see Ioanna Pepelasis Minoglou, “Ethnic Minority Groups in International Banking: Greek Diaspora Bankers of Constantinople and Ottoman State Finances c. 1840-1881,” *Financial History Review* 9 (Oct. 2002): 125-146.

⁵⁹ Kardasis, “The Greek Diaspora in Southern Russia,” 207-226; and, Gelina Harlaftis, “Mapping the Greek maritime Diaspora, from the Early 18th to the Late 20th Century,” in *Diaspora Entrepreneurial Networks Four Centuries of History*, ed. Ina Baghdiantz McCabe, Gelina Harlaftis, and Ioanna Pepelasis Minoglou, (Oxford, U.K., forthcoming, 2005); and Kardasis, “The Greek Diaspora in Southern Russia,” 207-226.

⁶⁰ It was not unusual for one TC in a specific port to have permanently renewable commercial relations with the branch of another TC in the same port; see Syngros, “Reminiscences,” vol. 1, p. 136.

⁶¹ In mid-century in Taganrog, a branch under the name Ralli & Scaramanga represented both the TC of Ralli and the TC of Scaramanga; see Gelina Harlaftis, “The Role of the Greeks in the Black Sea Trade, 1830-1900,” in *Shipping and Trade, 1750-1950 Essays in International Maritime Economic History*, ed. Lewis Fischer and Helge W. Nordvik (Yorkshire, 1990), 76.

⁶² Harlaftis, “Mapping the Greek Maritime Diaspora”; and Pepelasis Minoglou, “The Greek Merchant House of the Russian.” For another example of the practice of Chiot TCs setting up both a branch and a second “independent” partnership in a specific city see the comments on the activities of Ioannis Rodocanachi in Vienna in Seirnidou, “Greeks in Vienna,” 178.

nearby or far away merchants all of whom belonged to the Clan. These external collaborations took various forms. They ranged from short-term informal *commenda* to participation in formal limited-liability partnerships, or even more rarely the creation of *societe anonymes*: joint stock companies. A pattern within the clan was for merchants to keep an eye on antagonists or potential antagonists, either by setting up a joint venture with them or by participating as secret partners in the other's limited-liability firm(s). For example, entrepreneur X would have in his House entrepreneur Y as a limited-liability partner and simultaneously this entrepreneur X would appear as a limited-liability partner in the House of Y. In addition, "big fish" wishing to finance promising newcomers without risking their reputation or their capital, would often participate as secret partners in the latter's limited-liability firms.⁶³

It was common practice for two or more established and independent Chiot Diaspora TCs to be in a state of "permanently" shifting informal and formal collaborations over a long time period. Such examples are the TCs of Ralli and Scaramanga (in the Sea of Azov); the TCs of Ralli and Petrocochino (in the Black Sea); the TCs of Rodocanachi, Dromokaiti, and Scaramanga on the one hand and the Galati and Scylitsi, on the other (in the trade linking the ports of Smyrna, Constantinople, and Vienna); and the TCs of Scylitsi and Rodocanachi in Livorno. A unifying thread running through all these forms of external collaborations is their short-term, *ad hoc*, and clannish character.⁶⁴

With expansion came diversification. Often, investments in areas outside the TCs' core interest were undertaken as joint ventures with relatives or other Clan members.⁶⁵ Thus, the Greek TC would start off usually from the long-distance trade in grain, or some other bulk staple commodity, but would diversify, even before a fall in profits in the core sector, into banking, shipping, maritime insurance, farming, railways, light and heavy industry, and urban real estate. Again, note the examples of the TCs of the Baltazzi, Galati, Ralli, Rodocanachi, Petrocochino, Dromocaiti, Scanavi, Scaramanga, and Vlasto. These and other TCs through diversification and external collaborations extended their business interests on an international scale. Collaborations involving diversification took sometimes the shape of *sociétés anonymes* firms and

⁶³ Syngros, "Reminiscences," vol. 2, 154-178; and Katsiardi-Hering, *The Greek Expatriate Community in Trieste*, vol. 2, 425-6.

⁶⁴ For example, Pepelasis Minoglou, "The Greek Merchant House of the Russian," 79; Kardasis, "The Greek Diaspora in Southern Russia," 235-6; Seirinidou, "Greeks in Vienna," 177-9.

⁶⁵ An example is the collaboration of the Rodocanachi TC in Marseilles with the Scylitsi & Vafeiadaki TC. See Vlami, "Greek Merchants in Livorno," 193.

even involved joint ventures in which foreigners were involved. This was often the case in banking, insurance, and industry.⁶⁶

The Chiot Diaspora TC allowed, as noted, the partners and directors of the branches to have parallel activities outside the company, and even to participate as partners in other TCs.⁶⁷ In addition, if a minor partner or clerk proved capable, he would be allowed small commercial dealings for his own benefit with other clerks or agents of the TC or even with independent entrepreneurs. These business activities, which often were based on oral contracts, usually had an *ad hoc* short-term scope such as the joint financing of a grain cargo with a ship-owner, or the chartering of ships, or the provision of sea loans.⁶⁸

The TC would even lend its clerks funds on a free interest basis so as to facilitate them in these “outside activities.” In a convoluted way (a further indication of the low degree of hierarchy of the Chiot Diaspora TC) a salaried agent could become a partner with the Head of the TC in a short-term venture outside the main core of the business, or the agent might, after the dissolution of the original firm, become partner with the old boss in the setting up of a new TC, or an ex-partner might be

⁶⁶ For example in banking there is the case of the Central Russian Land Credit Bank created in 1872. Among the cofounders of this bank were the Greek Merchant banks of I. E. Kondojanaki; T. Rodocanachi; and Scaramanga and Co. The foreign list of participants was impressive, including the Austrian Creditanstalt, and the banking houses of Baring Bros. in London and Hope and Company in Amsterdam. This information is drawn from Bovykin-Anan'ich. Pepelasis Minoglou, “The Greek Merchant House of the Russian,” 92-94,97-102. See also for other cases of diversification: Patricia Herlihy 1979-80 “Greek Merchants in Odessa in the Nineteenth Century,” *Harvard Ukrainian Studies*, 3/4:399-420; Hadziiossif, “La Colonie Grecque en Egypte” 191-197; and 1988, 166-7; H. Exertzoglou, “Greek Banking in Constantinople, 1850-1881” (Ph.D. diss., Kings College, London University, 1986), 178, 214; Katsiardi-Hering, *The Greek Expatriate Community in Trieste*, vol. 2. pp. 457, 469, 470-4; Harlaftis, “Trade and Shipping,” 104-5; 2005; Ioanna Pepelasis Minoglou and Helen Louri, “Diaspora Entrepreneurial Networks of the Black Sea and Greece, 1870-1917,” *Journal of European Economic History* 26 (Spring 1997): 78-82, 91-93; Mandilara, “The Greek Business Community in Marseille,” 364-6; Seirinidou, “Greeks in Vienna,” 179.

⁶⁷ For such examples of the parallel participation of a merchant in more than one TC see again Katsiardi-Hering, *The Greek Expatriate Community in Trieste*, vol. 2, pp. 424-431, 592, and Chatziioannou, *Family Strategy*, 34-41.

⁶⁸ These business activities were undertaken within the context of informal and flexible contracts, such as so-called “syntrofiko” deals. The latter usually involved two partners whom would both provide the necessary capital. However, most often, only one would undertake “commercial activity.” In some cases the risk was shared between the partners, in others it was agreed that the one partner would carry it. For these and other types of informal deals, see Syngros, “Reminiscences,” vol. 1, pp. 214-218, 272-281, 282-5 and vol. 2, pp. 26-33, 39, 59-64, 71

downgraded to the status of an agent.⁶⁹ We have a clear indication that the reproduction and the promotion of the clan itself was a major concern of its members.

In sum, the “Trading Empires” of Chiot merchants, which served as a prototype and lay at the core of the nineteenth century Greek Diaspora, took the shape of agglomerations of a variety of organizations. Chiot merchants’ TCs, instead of being embedded in networks based primarily on intra- or inter-family ties as was the case with Western TCs, were integrated in a wider clannish peer group, the Chiot Clan. An amorphous, volatile, and shallow organization, the Chiot TC was more dependent on serial *ad hoc* partnerships with other clan members or TCs, which were often informal. In comparison to western TCs there was a less obvious hierarchy regarding the position of the core TC in evolving investment groups.

Conclusion

This paper serves as an example of how history can prompt us to re-examine theory from a fresh perspective. In the past, within economic theory the concept of clan has been used only to analyze organizations. In this paper, we have extended it to examine clans’ behavior within markets by constructing the concept of a market-embedded clan. Our analysis has shown that the theory of market-embedded clans leads to testable hypotheses regarding the characteristics of the business forms that clan members opt for.

The evidence we have presented from the nineteenth-century Greek Diaspora Merchants supports these hypotheses. We have seen that the Chiot Clan stood at the core of the Greek Diaspora. Its members continued to operate as independent merchant traders, competing with other merchant traders (Greek or non-Greek) who were not members of the clan. Thus, in our conceptual framework, the Chiot Clan was a typical “market” clan. We have also shown that the operation of this market-embedded clan had observable implications for the organizational forms that clan members set up. If our line of argument is correct, it may be possible to employ the market-embedded clan concept as a tool in analyzing the business methods of other Trading Diasporas and certain forms of contemporary economic governance structures.

⁶⁹ Syngros, “Reminiscences,” vol. 1, p. 315; Kardasis, “The Greek Diaspora in Southern Russia,” 121, 213-5; and Chatzioannou, *Family Strategy*.