Diversification Strategies and Corporate Governance in Trading Companies: Anglo-Japanese Comparisons since the Late Nineteenth Century

Geoffrey Jones[1]
Department of Economics
University of Reading, UK

In recent years the European chartered trading companies that flourished in the world economy from the sixteenth to the eighteenth centuries have attracted considerable attention. In particular, the organizational forms employed to reduce agency costs from rent-seeking behavior have been investigated [Carlos and Nicholas, 1988; Carlos and Nicholas, 1990; Casson, 1996]. However, there has been much less interest in the nineteenth- and twentieth-century successors to the chartered trading companies. In Europe and Japan especially, trading companies continued to occupy an important place in the international business system. In Europe their significance and their functions fluctuated over time, but in Japan trading companies have remained consistently important. In the 1990s Japan's general trading companies, or *sogo shosha*, rank among the biggest businesses in the world, regularly contributing at least five places in measures of the world's ten largest companies in terms of sales.

This article compares UK and Japanese trading companies since the late nineteenth century. The focus is on their diversification strategies and the governance structures that they employed to manage the diversified enterprises. There are both drawbacks and benefits to undertaking such a comparative study over a period extending for more than a century. On the negative side, a high degree of generalization is required, which oversimplifies (for example) the changes over time in both the trading companies and their parent economies. The comparison might even be considered ahistorical, given

[1] This article has been substantially improved because of the comments of Raj Brown, Fred Carstensen, Mark Casson, Matthias Kipping, Takeshi Ohtowa, Kenichi Yasumuro, Mary Yeager, Takeshi Yuzawa, Kazuo Wada, Judith Wale, and Mira Wilkins. Monica Clough was extremely helpful with the history of Finlay's. Andrew Riley and the other staff at Guildhall Library were extremely helpful in providing access to the archives of Harrisons & Crosfield. Vanna Skelley and Kate Hutcheson at the Business Records Centre, University of Glasgow, greatly assisted my research into Finlay's.

BUSINESS AND ECONOMIC HISTORY, Volume Twenty-five, no. 2, Winter 1996.
 ISSN 0849-6825.

that the "classic" period of the UK trading companies was the 1880s-1920s, while that of the *sogo shosha* was the 1950s-1970s. On the more positive side, the longer time frame permits some broader questions to be asked, while the Anglo-Japanese comparison provides insights on the "uniqueness" of the Japanese (and British) management systems. Certainly this study should be regarded as experimental rather than conclusive in both its empirical evidence and the methodology employed.

Origins and Evolution

During the nineteenth century a considerable number of UK trading companies emerged [Chapman, 1992; Jones, 1986; Jones, 1987]. These companies – which were not descended from the "chartered" trading companies of earlier centuries – engaged in international trade and established branches or affiliated partnerships abroad. The enterprises were highly varied in both their origins and structures, but as a whole each focused on a single geographical region. Indeed, they were frequently described in different terms in different regions, being termed "agency houses" in Southeast Asia, "managing agents" in South Asia, and a mixture of merchant houses, traders, and shippers in the rest of the world

Japan's history in the nineteenth century could not have been more different from that of the UK. In contrast to Britain with its lengthy colonial and international trading tradition, Japan had been a closed economy for over two hundred years before 1853. Yet when Japan did enter the international economy on a substantial scale following the Meiji Restoration in 1868, trading companies developed quickly. Following the foundation of Maruzen in 1869, many trading companies appeared, which traded in one or at most a handful of commodities with a single foreign country or region. The outlier from this pattern was Mitsui Bussan, founded in 1876, which evolved as a general trading company, dealing in many commodities in many countries. It was thus the first *sogo shosha*.[2]

By the eve of the First World War trading companies handled 51 percent of total Japanese exports and 64 percent of total Japanese imports. Mitsui Bussan alone accounted for 20 percent of the total export/import trade of Japan through an overseas network of 30 branches [Maeda, 1990b, pp. 96-98]. In the prewar decades Japanese trading companies participated in the fast growth of intra-Asian trade. There are no comparative estimates of the proportion of total British foreign trade that passed through Britain's trading companies at this time, partly because of acute problems about defining which firms should be included in this category. However defined, trading companies with overseas branches or affiliates co-existed with other conduits of British

---

[2] However, the term *sogo shosha* was not used before the Second World War. Mitsui Bussan and, later, other major trading companies were termed *boeki shosha* (foreign trading companies), in contrast to trading companies that were not engaged in foreign trade [Yoshihara, 1982, pp. 9-10].

foreign trade. There were numerous merchant houses based at British ports or manufacturing centers that exported manufactured goods to importers in the consuming country without any branches or affiliates abroad. In addition, nineteenth-century British manufacturers integrated forward, selling into foreign markets and establishing their own distribution facilities abroad. Nonetheless, it is a reasonable assumption that before 1914 a substantial proportion of British foreign trade passed through trading companies.

The rationales behind the growth of trading companies in Britain and Japan were broadly similar. Trading companies reduced search, negotiation, and transaction costs. They reduced the risks of international trade in unfamiliar areas by collecting information and providing scarce managerial talent. To Meiji Japan, all countries were alien, and there was an extreme shortage of personnel with language and foreign trade skills, so trading companies were used in trade with all geographical areas. British manufacturers were familiar with market conditions elsewhere in Europe and the United States, and did not need intermediaries there, but trading companies were employed extensively in Asia, Latin America, and Africa, where the business cultures, institutions, and languages were very different from those in the UK [Yoshihara, 1987, pp. 10-11]. The costs of acquiring the knowledge required for exporting to such foreign markets were likely to be high, and without the trading companies such costs would have been indivisible and fallen totally on individual exporters. It may be hypothesized that the greater the delays in communication, the greater the competitive advantage of specialist information gatherers such as the trading companies, while the more entry into the trade, the fewer the rents to be had by trading intermediaries.

This common rationale must not disguise the major differences between the UK and Japanese situations. The British were first movers in the modern world economy: their trading companies created markets in the nineteenth century by integrating new areas into the international economy, especially by natural resource exploitation. Japan, as a follower country, had no need to develop new areas. The British trading companies grew without government support, financial or otherwise. The Japanese government, eager to free the country from reliance on foreign merchants, supported the early development of its trading companies, especially Mitsui Bussan. Finally, the growth of Mitsui Bussan as a *sogo shosha* was conditioned by its membership in the Mitsui *zaibatsu*. Many of the commodities in which it traded were produced by other companies within the *zaibatsu* or were financially supported by Mitsui Bank [Yamazaki, 1987, pp. 44-49]. There was no British equivalent of such enterprise groups, although one large trading company – the United Africa Company – came to be owned by the manufacturing giant Unilever [Fieldhouse, 1994]. In general, from the beginning the links between the British trading companies and their home economy were much weaker than in Japan. Their business strategies were centered less on the UK than on their chosen region of operation, for which they searched for both imports and exports from beyond the UK.

The subsequent evolution of the trading companies can be sketched briefly. The Japanese trading companies fared badly in the 1920s, and one *sogo shosha*, Suzuki Shoten, went bankrupt in 1927, but in the 1930s they expanded rapidly along with Japanese foreign trade. After the Second World War, all their overseas branches were sequestrated, and Mitsui Bussan – along with the other *sogo shosha* Mitsubishi Shoji, which had been formed as a separate entity out of Mitsubishi interests in 1918 – were broken up into numerous companies. They had re-formed by the end of the 1950s, while a number of specialty textile, steel, and machinery trading companies (*senmon shosha*) became general traders. A total of ten (nine after a merger in 1977) *sogo shosha* accounted for 81 percent of Japan's total imports and 69 percent of its exports in 1970. Their importance subsequently declined as the Japanese economy developed more high-tech, branded products – whose manufacturers tended to integrate into distribution themselves – but even in 1991 they handled 76 percent of Japan's imports and 43 percent of its exports. Their gross sales amounted to around 26 percent of Japan's nominal GNP at that date, while Mitsui & Co. (formerly Mitsui Bussan) is Japan's largest company in terms of turnover. Though the *zaibatsu* were dissolved after the Second World War, the *sogo shosha* became leading components of the horizontal enterprise groups – kigyo shudan – which developed in post-war Japan, where their roles were especially important before the loosening of these groups in recent decades [Jones, 1996, pp. 181-7].

The development of the British trading companies after the First World War was far less spectacular, though more impressive than their neglect by later business historians would imply. They survived the world wars, the Great Depression, decolonization, and the sharp fall after 1950 in the British share of world trade. They remained substantial business organizations in terms of numbers employed and economic significance. Jardine Matheson employed 250,000 people in China before the 1949 revolution [Keswick, 1982]. James Finlay employed at least 150,000 in India and Africa about the same time.[3] A considerable number of UK trading companies were merged from the 1960s into Inchcape, which is today a European *sogo shosha*. In 1995 it had a turnover of US$9.45 billion, marketed over 2,000 products, and represented 800 European, Japanese, and US manufacturers in over 30 countries throughout Europe, Asia, the Middle East, and Latin America. Its activities range from being the world's largest independent importer and distributor of motor

[3] Calcutta to Glasgow, 17 September 1945, James Finlay Archives, University of Glasgow, UGD 91/413/I. This memorandum gave the numbers employed under the control of the Calcutta branch only of the company in 1945 at 138,881, including 354 Europeans and 25 "Anglo-Indians." Of this number, 540 were employed at the Calcutta branch and its two sub-offices at Chittagong and Vizagapatam. A further 6,421 were employed in jute production and marketing, 2,337 in sugar mills, and the remaining 129,962 in tea estates spread over North and South India. At that time Finlay's also had a branch in Bombay and cotton mills in Western India, tea estates in Sri Lanka and Kenya, and offices in the United Kingdom, including two cotton mills, giving a total labor force of at least 150,000, and probably significantly more.

vehicles (a role including a 30-year relationship as one of Toyota's largest distributors) to being a Coca-Cola bottling franchise in Russia and Chile. Another impressive survivor was the Swire Group. In the 1990s its extensive and diversified business interests spanned China and elsewhere in East Asia, and included the control of Hong Kong's flag carrier, Cathay Pacific.

Diversification

A noteworthy feature in the history of British and Japanese trading companies has been the tendency to diversify into other related services, especially insurance, finance, and transportation, but also into natural resources and manufacturing. Mitsui Bussan diversified into marine transportation at the end of the 1890s and founded its own (non-life) insurance company in 1918 [Maeda, 1990a, p. 42]. During the 1930s the *sogo shosha* diversified into both manufacturing and natural resource exploitation in Asia, especially in areas occupied by the Japanese Army. From the 1960s the *sogo shosha* became active in manufacturing and resource exploitation outside Japan on a large scale and in large-scale construction projects [Kawabe, 1990]. Despite this diversification, trade remained the core business of the *sogo shosha.*

The British trading companies also pursued diversification strategies. As there were strong regional variations, this study will focus on four British companies active in the South and Southeast Asia region that all dated from the nineteenth century (or earlier) and that became important elements in regional economies and commodity markets. As a crude size indicator, in 1965 the net assets of the Borneo Company Limited (BCL) were $25 million; of Harrisons and Crosfield (H&C) $29 million; and of James Finlay $21 million; the Anglo-Thai Corporation was in a smaller category of $8 million. The focus on these four companies is intended to prevent the present exercise from becoming even more unmanageable and ahistoric, as the inclusion of British companies active in Latin America, Africa, or Russia would have introduced further complexities.

BCL was founded in 1856 and diversified geographically and by product almost immediately. Its trading activities were centered on the British colony of Singapore, where it also began a brickworks manufacture in 1899. In Sarawak – ruled by the "White Rajahs," the Brooke family – BCL was active in commodities and had a large gold mining business between the 1880s and 1923. In Thailand a trading and insurance business was developed before BCL diversified into teak in the 1880s. During the interwar years BCL became a large automobile distributor in Singapore and Malaya, distributing both UK (Austin) and US (General Motors) vehicles. After the Second World War BCL was gradually forced out of the teak business by the Thai government – though as late as 1955 teak was described by BCL as its "most valuable asset"[4] – but its automobile distribution business flourished. The firm diversified into

[4] Comments on Wells Report, 26 April 1955, Borneo Company Archives, Guildhall Library, London, MS 27181.

local processing and assembly of various manufactured goods, and from the 1950s diversified into Canadian brickworks, Australian timber, and West Indian motor vehicle distribution before merging with Inchcape in 1966 [Borneo Company Limited Archives; Jones, 1986; Longhurst, 1956].

The Anglo-Thai Corporation – which merged with Inchcape in 1975 – had a quite different corporate history. Founded as the Siam Forest Co. in Bombay in 1884 by British merchants active in India, its registration moved to London in 1897. The firm was initially entirely concerned with the Thai teak industry, but by 1914 it had diversified into general trading and insurance. After the First World War the firm opened branches in Singapore and, especially, India, where a large trading business developed, and also diversified into rubber plantations in Malaya and cotton textiles manufacture in Bombay. From the late 1940s the firm became engaged in motor distribution in Thailand, tire retreading and later canned food manufacture in India, and light metal fabrication in Canada. The late 1960s and early 1970s saw further diversification including the sale, leasing, and maintenance of helicopters in Southeast Asia, and the import and distribution of wines and spirits in Japan and Hong Kong [Anglo-Thai Corporation Archives; Jones, 1986].

Harrisons and Crosfield was founded in 1844 as a partnership engaged in tea trading. In 1908 the firm became a limited company. During the period 1895-1910 the firm began to open its first overseas branches in Asia, the United States, Canada, and Australia. Tea trading remained an important feature of the business, but H&C was also a first mover in establishing rubber plantations in Southeast Asia. In the 1920s timber concessions were acquired in Borneo, which lead to a large-scale logging business that lasted until the early 1980s. From the 1950s H&C also established palm oil plantations in Malaya and Papua New Guinea. At the end of the 1920s H&C began to manufacture rubber products – Linatex – in Malaya, and these manufacturing interests were extended after the Second World War. The rubber processing activities led to substantial diversification into chemicals manufacture and distribution. In the 1990s H&C continues in existence as a major specialty chemicals, timber, and foods company [Harrisons and Crosfield Archives; Brown, 1994, pp. 43-65; Harrisons and Crosfield, 1944; Nickalls, 1990].

The development of James Finlay was different again. This firm originated as eighteenth-century Scottish merchants. It established cotton mills in Scotland at the beginning of the nineteenth century – which continued to operate until the mid-1960s – and then developed an extensive cotton trading business with the United States and, later, India. In the 1870s Finlay's began trading in tea, an activity that led to the acquisition of very large tea plantations in India, and the creation of tea distribution companies in the United States, Canada, and Russia. By the early 1920s Finlay's may have controlled 40 percent of all the tea plantations in India [Chapman, 1992, p. 224]. In the 1870s Finlay's also began jute manufacture in Calcutta, and in the 1900s cotton textiles manufacture in Bombay. The 1920s saw the opening of tea plantations in East Africa, and in the following decade the firm began manufacturing sugar in India [Brogan, 1951; James Finlay Archives]. Finlay's survived the destruction of its new sugar factory by an earthquake in Bihar in 1934, and responded successfully to Japanese cotton textile competition by shifting its Indian output to produce fine-grade cottons, but the post-1945 decades were more difficult. Divestment from India between the late 1960s and the early 1980s was accompanied by unsuccessful diversifications into merchant banking, insurance, property, and oil and gas exploration in Britain, the United States, Australia, and elsewhere before – in the 1990s – the firm re-focused on tea trading and plantations.

A number of (interrelated) factors led these British trading companies to diversify. In the first place, the historical context was important. In nineteenth-century South and Southeast Asia, the lack of infrastructure and of local entrepreneurship meant that the British trading companies could often not rely upon others to create complementary businesses. Although important relationships were formed with ethnic Chinese and other local entrepreneurs, in many cases if the British trading companies sought, for example, to upgrade produce to improve trade they had to engage directly in agriculture themselves, and if they wanted better infrastructure to transport their goods or produce, they had to build and operate it [Fforde, 1957, p. 117]. In response to this situation, the trading companies pursued entrepreneurial and opportunistic strategies. They were alert to new opportunities and performed a role akin to that of venture capitalists. Finlay's opened Bombay and Calcutta offices in 1865 and 1870 mainly to sell the products of their Scottish mills, perceived the opportunities offered by the infant jute and tea industries, and moved rapidly into them. Similar arguments can be used to understand the initial diversification strategies of the Japanese trading companies. In the specific historical circumstances of late nineteenth-century Japan, there were no other companies to perform functions such as supplying raw materials, marketing and finance.

Second, there were strong internationalization arguments for integration arising from information asymmetry and opportunism. Quality control was an important element behind vertical integration strategies in teak, tea, and other commodities.

Third, the trading companies faced a considerable number of risks, to which the rational response was to develop a portfolio of investments. All four companies operated in part outside the British Empire and faced the political risks involved in undertaking business in different jurisdictions. The companies also faced exchange risks because they had assets in, and traded between, different currency areas. Finally, they faced the risks associated with primary commodity price fluctuations, which affected them both as growers and traders of commodities and as importers into countries whose economies were heavily dependent on the price of commodities.

Fourth, the trading companies had opportunities to secure economies of scope. Their region-specific information and expertise represented indivisible assets that reduced the set-up costs facing entirely new business ventures. Acquisition of knowledge about South and Southeast Asia involved experience, know-how, and research – all of which were costly – but once in possession of these factors, the trading companies were well-positioned to diversify their activities. Scope economies were achieved through the joint provision of information, finance, storage, distribution, and transport facilities by the trading companies. Knowledge of such operations was not commodity-specific, so the marginal cost of entry into a new product area was low. There were considerable synergies to be obtained from diversification strategies. An important part of the business of the trading companies was acting as agents for insurance and shipping companies. The companies thereby earned income not only through trade per se, but on the insurance and transportation of that trade. This was also an important feature of Japanese trading companies [Kawabe, 1990]. Plantations and mines generated new flows of exports, while plantations managed by one trading company might use the tractors and other vehicles of the company for which a trading company acted as importing agents.[5]

Structures

The focus is on the organizational structures that were developed in the late nineteenth century and remained more or less in place until the 1970s. As in the case of the Japanese companies, a central head office was at the apex, located in London except in the case of Glasgow-based Finlay's. Also as in the case of Japan, these head offices presided over a number of complementary structures. Differing in nature but with two main organizational forms: overseas branches and affiliated companies.

The branches of the British trading companies were normally wholly owned. They undertook the trading activities and also served as agents for shipping (and later airline) companies, insurance companies, and the like. Branches usually provided management services for affiliated companies, and occasionally performed other functions as well. For example, in the case of BCL, the Chiengmai branch ran the teak operations in northern Thailand. Branches were usually part of the parent company until the 1960s, when concerns about local sensibilities began to lead in conversion into locally registered activities.

The second organizational form was the affiliated companies. Like *sogo shosha* [Yoshino and Lifson 1986, pp. 114-16], the British companies used separately incorporated entities that very often were not wholly owned to control business lines other than trading. In some cases the trading companies held a substantial share of the equity of the affiliates. In BCL, for example, the firm would develop a business or secure a concession and then, at some stage, float the venture as a public company. BCL floated its first rubber estate in Sarawak in London in 1912. In 1914 it formed a Dutch company to manage a tea estate in Indonesia. In 1926 the motor distribution business was floated as the Singapore-registered Borneo Motors, Ltd. Finlay's jute, tea, cotton, and

5 Motor Group Committee Minutes, 21 May 1959, Borneo Company Archives, Guildhall Library, London, MS 27189.

other operations were all operated by affiliated companies, though usually – at least until the 1920s – registered in Scotland. Finlay's invariably held only a share of the equity of these firms, though the proportion varied between firms and over time. In 1965 it controlled between 20 and 30 percent of the four large tea companies in the group. The formation of separate companies limited the risk to the trading companies and enabled outside capital to be bought into the venture. Especially after 1945, affiliated firms also arose from joint ventures. H&C's vehicle for diversification into engineering was Harrisons Lister Engineering, a joint venture with a UK firm that manufactured diesel engines and agricultural equipment. This form of joint venture with manufacturers was extensively used by *sogo shosha*, especially after 1945.

In the case of many plantation, timber, and minerals affiliate companies, the proportion of equity held by the trading companies was often small. In 1948 the H&C group included some 40 UK-registered plantation and timber companies active in South and Southeast Asia. The H&C share of the equity in these firms rarely exceeded 20 percent, and was sometimes only 1 or 2 percent.

The affiliates were joined to the British parent trading company by multiple ties in addition to equity. There were links at the director level. In the H&C case, each plantation company had a board of directors, of whom the greater proportion were also members of the H&C board or had served as senior H&C managers in the East. In the case of locally registered companies, senior management at overseas branches would provide several of the directors.

Second, there were non-equity financial ties. The trading companies would make substantial loans to affiliates and, conversely, affiliates with cash surpluses would deposit them at the overseas branches. Loans could reach high levels over long periods and were sometimes as or more important than equity in financing operations. This combination of equity and credit is identical to that found in *sogo shosha* relationships with affiliates [Yoshino and Lifson, 1986, p. 114], and, as in the case of *sogo shosha*, it was a fluctuating relationship. If companies could finance their business more efficiently from bank finance, then they would do so. The British trading companies would also provide guarantees to banks that lent to affiliates. This reduced the borrowing costs of the affiliates while providing the trading company with a source of income in the form of a commission earned on its guarantee.

A further linkage (with fewer Japanese parallels) arose from the management services provided by the British trading companies to affiliated companies, for whom they were appointed "secretaries" or "agents." The secretarial function comprised the work done at Head Office in the UK and involved the provision of full management support to the boards of directors of individual companies, the issue and transfer of shares and other normal company secretarial functions, and – in many cases – the provision of boardrooms where directors could meet. The agency function was based overseas and involved the management of the business on the spot. It included the detailed management of – for example – plantations, selling the products, purchasing any imports required, and recruiting staff. The income for the trading company comprised the agency fees that accrued initially to the branches and the secretarial fees that were earned directly in London or Glasgow.

The agency and secretarial agreements raised complex issues. The British trading companies exercised considerable control over the affiliates, but the latter retained some autonomy. Agency agreements were for a set number of years, and there were negotiations about fees and commissions when agreements were renewed, although it was most unusual for an affiliated company to leave the orbit of the trading company. However, there was potential for conflicts of interest between the trading company and outside shareholders. Under the terms of most agreements, the agent earned a commission on sales turnover or – in the case of plantations – acreage. There was no correlation with profits or dividends, although as the trading companies were also shareholders, they had an interest in these matters. Nevertheless it is curious that there were so few public conflicts between outside shareholders and agents. When disputes did arise – as when Finlay's was sued in the Scottish courts in the 1890s by outside shareholders in the Champdany Jute Company, for which Finlay's acted as agents in Calcutta as well as owning part of the equity [Stewart, 1986, pp. 341-46] – conflicts of interest were spelled out in extremely clear terms. However a number of factors kept such disputes to a minimum. So-called outside shareholders, at least before the interwar years, were often drawn from families and friends of people associated with the parent trading company, and also seem to have included various "exploitable" categories such as widows, orphans, and clergy. Moreover, strategies were employed to mitigate conflicts. In times of considerable difficulty the British trading companies would in fact postpone, reduce, or forgo commissions – a practice that *sogo shosha* also employed – and probably in both cases it should be treated as an attempt to inspire confidence in contracts.

The final ties between the British trading companies and their affiliates were through the trading connections already specified. H&C's trading networks sold the rubber, tea, timber, and other commodities produced by the affiliated plantation companies. In the interwar years the firm developed its own rubber processing operations, which consumed some of the products of its plantations.

Competencies

A key skill of the British trading companies lay in the management of relationships; indeed, they substituted relationships for organization. As for the *sogo shosha*, the ability to co-ordinate the activities of internal and external networks was critical. The networks of affiliated companies represented one set of relationships. Taking small equity stakes allowed the trading companies – as it did the *sogo shosha* – to establish trading relationships while limiting the amount of capital risked. Externally the trading companies maintained long-term, and non-exclusive, relationships with banks, whose overdraft facilities provided a very important part of their financing.

The core general merchandising business rested on good relations with the principals for whom the firm acted as agent. Long-term relationships developed with shipping and insurance companies and with some manufacturers, but these relationships were very fragile in legal terms. BCL's motor vehicle distribution operations – two-fifths of total profits in 1965 – rested on the maintenance of a good relationship with GM and Austin in circumstances in which the franchises could be terminated at almost a moment's notice. As Anglo-Thai's chairman reflected to his fellow directors in 1968, the firm's income "could be affected almost overnight as a result of protective tariffs, or a decision on the part of Manufacturers to undertake local manufacture and/or distribution themselves."[6]

A second source of competence lay in the tight overall direction and control at the center. Boards of directors were key elements in the British companies. As in *sogo shosha*, boards were executive and had regular operating responsibilities. The membership of the board consisted of long-serving managers (and in some cases founding family members), while "outside" members of boards were often directors or chairmen of one of the leading banks financing the trading company, as in Japan [Yoshino and Lifson, 1986, pp. 104-6]. The boards of the British companies met frequently and tightly controlled decision making. Detailed information about all aspects of corporate activities was supplied to them. Because directors had often served with their companies overseas for long periods, they possessed a formidable level of tacit knowledge about their chosen region or activity. The head offices of the British companies were not large. In 1957 BCL's total London staff was sixty-nine, including ten typists.[7]

A third source of competence lay in the development of procedures that enabled the juxtaposition of tight central control with considerable delegation of routine decisions to managers in the field. The decentralization of control raised the problem of controlling opportunistic behavior which often manifested itself in inter-branch competition. *Sogo shosha* faced similar problems, and in the late nineteenth century and the interwar years they developed accounting systems designed to alleviate such problems [Kawabe, 1990, pp. 170-203]. In the Japanese case, the difficulty was the concern of branches for their individual profit performance. In the British case, the question was more sensitive because the remuneration of managers often included commission on profits as well as bonuses. The British companies responded by introducing extensive – for British enterprises – bureaucratic rules. At Finlay's, where the use of employment contracts including commission grew from the 1870s, the definition of profits became more tightly defined over time [Stewart, 1986, pp. 186-87]. The allocation of profits among branches was critical, and companies developed extensive rules on inter-

---

[6] Board Minutes, 24 April 1968, Anglo-Thai Corporation Archives, Guildhall Library, London, MS 27008/12.

[7] W.C. Long to H.W. Wilcock, 29 October 1957, Borneo Company Archives, Guildhall Library, MS 27234.

branch trading.[8] In both the British and the Japanese cases, ceilings on the levels of transactions and credit extension to clients, above which referral to head office was required, played an important role in control mechanisms.

Problems of control and opportunism were alleviated in both British and Japanese trading companies by strong corporate cultures. Carefully selected and long-serving management cadres strongly imbued with loyalty to their institutions. Shared living arrangements for unmarried men and an emphasis on team sports were found in both British and Japanese companies. As in the case of the British overseas banks, managers were recruited from privately educated, middle-class groups and often spent their careers with the firm [Jones, 1993]. However, the corporate cultures of the British trading companies were considerably more "merchant" or "commercial" in character than those of the British banks, or probably than their Japanese equivalents. This was manifested both by the importance of commissions (calculated on profits) in remuneration packages and by the fact that managers were dismissed – or, more precisely, their contracts were not renewed – for unsatisfactory performance.

The British and Japanese trading companies, therefore, developed systems, structures and competencies that permitted them to control high risk and diversified, cross-border businesses. The similarities between aspects of the management systems of the British and the Japanese trading companies should not be regarded as wholly accidental. In fact there was a significant transfer of managerial techniques from the West to the Japanese at the formative stage of *sogo shosha.* This influence can be traced in the career of Takashi Masuda, a founder of the trading house Senshusha, which was to merge with the Mitsui family's unprofitable domestic trading house to form Mitsui Bussan. Masuda learned many of his skills from an American trading company, Walsh Hall, and studied bookkeeping and international trading practices in London after the opening of Japan in 1853. An American, Robert Walker Irwin, worked as an adviser. Through Masuda and others, Western mercantile practices were transferred into Japan.

The question arises why British firms did not evolve on the scale of Japan's *sogo shosha.* Japanese business historians have emphasized the development of modern managerial hierarchies as a key factor in the growth of *sogo shosha.* Mitsui Bussan was noteworthy for its early employment of salaried and well-educated professional managers. "In order to grow into general trading companies," Yonekawa concluded, "traditional trading houses have to be reorganised as managerial enterprises" [Yonekawa, 1990, p. 11]. *Sogo shosha* were recruiting university graduates from the early 1900s, and for much of this century they have been among the most prestigious employers who recruited only from elite Japanese universities [Yoshino and Lifson, 1986, pp. 139-43].

[8] Memorandum on Inter-Branch Trading, January 1920, H&C Archives, Guildhall Library, London. The cataloguing of the H&C collection is not yet complete, and so final classification numbers have not yet been allocated.

In contrast, the British literature points to constraints on the UK trading companies arising from their continuing adherence to either the partnership form or, more broadly, to mercantile rather than to managerial traditions. Misra has ascribed the "failure" of a group of British trading companies – all of which retained the partnership form of organization in the interwar years – to take advantage of new opportunities in interwar India to their conservative business outlook and failure to develop modern managerial hierarchies [Misra, 1994, p. 39]. This is broadly the view taken by Chapman also. "What might have been," he writes, "is revealed in the dynamic histories of Japanese general trading companies like Mitsui and Mitsubushi that started from a similar point but lacked the advantages of the imperial setting, connections with London and the richest domestic market in the world at the period" [Chapman, 1992, p. 309]. Japanese scholars have also emphasized the disadvantages of the British "family enterprises" compared to the professional management developed at Mitsui Bussan and, later, other companies [Yoshihara, 1982, pp. 191-92].

It is not evident that these criticisms are relevant to BCL, Anglo-Thai, Finlay's, or H&C. By the interwar years they had all abandoned the partnership form and were public companies, even though their shares were tightly held, and – in the case of Finlay's – a strong family influence persisted. They definitely inclined to "lean" managerial structures rather than bureaucratic ones, and – in conformity with British practice until the 1960s – rarely looked to universities to recruit potential managers, though Finlay's was recruiting some Scottish university graduates by the First World War, and H&C also sought to recruit a few graduates for its London office after the war. Yet their managers were neither stupid nor amateurs. The system of spending all their careers abroad generated a formidable level of tacit knowledge about their chosen region, which was reinforced by requirements to learn local language skills. *Sogo shosha* may have recruited from elite universities, but they often did not recruit the best students. Like the British companies, they favored men who played sports and demonstrated character traits such as risk-taking and ability for team work.

It was the lack of a British equivalent to the Japanese enterprise group system that must be seen as the major constraint on the ability of the UK trading companies to follow the Japanese pattern. They not only had no family of related British firms wishing to export or import through them, but British manufacturers also were much more willing than the Japanese to integrate forward into selling. In any case, from the interwar years the poor performance of a succession of UK products – from cotton textiles to automobiles – did not provide a dynamic source of growth for UK traders. The strategy of modern Inchcape – of marketing and servicing the products of any manufacturer worldwide – was a logical response to both poor British export performance and the preference for vertical integration among British manufacturing companies.

The British lack of an enterprise group system limited the capacity of the British companies to emulate the diversification strategies of the Japanese.

In the post-Second World War period, *sogo shosha* were able to diversify extensively through joint ventures with Japanese manufacturers – usually members of the same *kigyo shudan* – who provided the technical skills they lacked. BCL, Finlay's, and H&C followed this strategy in a number of cases, but their options were much more limited. Although H&C – for example – was able to diversify into engineering using a joint venture with Lister, British manufacturers mostly wanted to control overseas factories themselves. The alternatives were also difficult. In a number of cases non-UK partners were sought. An early example took place in the interwar years when BCL entered match production in Thailand in a joint venture with Swedish Match. From the 1950s, when the British traders sought to diversify into Canada, the United States, and other developed markets, they often sought local partners. This was the strategy followed by Finlay's to develop its US interests in the 1970s and 1980s, but finding effective and trustworthy foreign partners proved very difficult. Indeed, the root cause of many of the failed diversifications of this era lay precisely in this problem. Given that the business strategies of the British trading companies had long been focused on their host rather than on their home region, the formation of partnerships with Asian business groups might also have been a possibility. This process is observable in India from the interwar years. As Marwari interests moved into jute and tea, in quite a few cases they co-operated with British trading companies, but the general outcome over time was a transfer of the business into full Indian ownership. In the 1960s Finlay's itself entered a partnership with the Tatas – with whom it formed a joint venture to develop its innovative instant tea business – but the eventual outcome was the transfer of all Finlay's Indian tea plantations and other interests to full Tata control. There was no real basis for the British trading companies to become parts of Asian-based business groups while they remained under British ownership.[9]

It is evident that the British trading companies remained far more regionally specialized than the Japanese *sogo shosha*. Timing may have been a key factor here. The formative period of the British firms was in the late nineteenth and early twentieth century, when as pioneers their regional characteristics did not handicap but propelled them into world markets that had not yet been internationalized to the extent they would come to be after the Second World War. As a result the British companies developed strong incumbency and reputational advantages that happened also to be highly region-specific. When geographical diversification strategies were attempted from the 1950s – when companies responded to rising political risk in developing economies by investing in developed economies such as Canada – the British trading companies were shown initially to lack the requisite managerial competencies. As a result, there was no British equivalent after 1945 of the growth of the *senmon shosha* into *sogo shosha*, although over time the

---

[9] However, several former British trading companies became powerful locally owned business groups from the 1970s after transfers of domicile. Examples include Shaw Wallace in India and Sime Darby in Malaysia.

companies that coalesced into Inchcape did make that transition. The Japanese firms, as followers, to some extent learned lessons from the British, but these were grafted onto a group-oriented business culture that enabled them to bypass some of the constraints that had handicapped British companies and to compete on a truly international basis.

The region-specific nature of the expertise of the UK trading companies weighed heaviest on firms such as Finlay's that were concentrated in South Asia, where government policies after Independence were inclined to state planning, high taxation, and, at least from the 1960s, restrictions on foreign companies. The Glasgow management of the firm, which remained highly centralized, did not adapt well to the changed political and economic environment, declining to shift the registration of its companies from Britain to India or to make new investments. The other three companies were not without political and economic problems in Southeast Asia, but in general there were enduring growth opportunities in commodities such as palm oil, in logging, and in automobile distribution and local processing. BCL and Anglo-Thai responded quite well to the opportunities in their regional markets after the Second World War, and they later made an important contribution to the dynamism of Inchcape, which did evolve as a multi-regional trading company.

Concluding Remarks

This comparative study of diversification and competencies of British and Japanese trading companies has involved a high level of generalization. It has covered a long time period during which many changes occurred. The differences in size and scope of the UK and Japanese enterprises, and their quite different roles within their domestic economies, are self-evident. Perhaps it is the *scale* of the Anglo-Japanese differences that makes the similarities interesting. Both the diversification strategies and the organizational structures had many similarities. The challenges centered on access and use of information and the coordination of diverse activities. In both cases networks of enterprises linked by equity, debt, people, trade, and services were preferred to internalization, and relationships were substituted for organization.

There are a number of explanations for the use of network arrangements by UK and Japanese trading companies. They were effective in delivering the combination of flexibility, trading relationships, risk-spreading, and information-gathering capacity needed in a diversified trading business. The homogenous nature of both Japanese and British cultures probably provided a more favorable social context for the operation of such networks – in which high trust levels are usually important – than, say, the heterogeneous culture of the United States. Finally, as Mark Granovetter has recently noted, collections or groups of co-operating firms should be regarded more as the norm than as the exception in business [Granovetter, 1995]. From this perspective, the interesting questions concern not why such networks were employed, but rather identifying the variations among network-type arrangements and the differences in their outcomes.

References

Anglo-Thai Corporation Archives, Guildhall Library, London, UK.

Borneo Company Limited Archives, Guildhall Library, London, UK.

Brogan, J., *James Finlay & Co. Limited* (Glasgow,1951).

Brown, R.A., *Capital and Entrepreneurship in South-east Asia* (London, 1994).

Carlos, A.M., and S.J. Nicholas, "Giants of an Earlier Capitalism: The Chartered Trading Companies as Modern Multinationals," *Business History Review*, 62 (1988), 399-419.

________,"Agency Problems in Early Chartered Companies: The Case of the Hudson's Bay Company," *Journal of Economic History*, 50 (1990), 853-75.

Casson, Mark, *Information and Organisation: A New Perspective on the Theory of the Firm* (Oxford, 1996).

Chapman, Stanley, *Merchant Enterprise in Britain* (Cambridge, 1992).

Fieldhouse, D.K., *Merchant Capital and Economic Decolonization* (Oxford, 1994).

Fforde, J.S., *An International Trade in Managerial Skills* (Oxford, 1957).

Harrisons and Crosfield Archives, Guildhall Library, London, UK.

Harrisons and Crosfield, *One Hundred Years of East India Merchants: Harrisons & Crosfield 1844-1943* (London, 1944).

James Finlay Archives, University of Glasgow, Glasgow, UK.

Granovetter, Mark, "Coase Revisited: Business Groups in the Modern Economy," *Industrial and Corporate Change*, 4 (1995), 93-150.

Jones, Charles A., *International Business in the Nineteenth Century* (Brighton, 1987).

Jones, Geoffrey, *British Multinational Banking 1830-1990* (Oxford, 1993).

________, *The Evolution of International Business* (London, 1996).

Jones, Stephanie, *Two Centuries of Overseas Trading* (London, 1986).

Kawabe, Nobuo "Overseas Activities and Their Organization," in S. Yonekawa, ed., *General Trading Companies* (Tokyo, 1990), 170-203.

Keswick, Maggie, *The Thistle and the Jade* (London, 1982).

Longhurst, Henry, *The Borneo Story* (London, 1956).

Maeda, K., "Business Activities of General Trading Companies," in S. Yonekawa, ed., *General Trading Companies* (Tokyo, 1990a), 33-45.

________,"General Trading Companies in Pre-War Japan: A Sketch," in S. Yonekawa, ed., *General Trading Companies* (Tokyo, 1990b), 92-110.

Misra, Maria, "Entrepreneurial Decline and the End of Empire," D. Phil. Dissertation: Oxford University, 1994.

Nickalls, G., ed., *Great Enterprise: A History of Harrisons & Crosfield* (London, 1990).

Stewart, Ross Ernest, "Scottish Company Accounting, 1870 to 1920: Selected Case Studies of Accounting in its Historical Context," PhD Dissertation: Glasgow University, 1986.

Yamazaki, Hiroaki, "The Logic of the Formation of General Trading Companies in Japan," in S. Yonekawa and H. Yoshihara, eds., *Business History of General Trading Companies* (Tokyo, 1987), 21-64.

Yonekawa, Shin'ichi, "General Trading Companies in a Comparative Context," in S. Yonekawa, ed., *General Trading Companies* (Tokyo, 1990), 8-32.

Yoshihara, Hideki, "Research on Japan's General Trading Firms: An Overview," *Japan Economic Studies*, 9 (1981), 61-86.

________, "Some Questions on Japan's *Sogo shosha*," in S. Yonekawa and H. Yoshihara, eds., *Business History of General Trading Companies* (Tokyo, 1987), 1-17.

Yoshihara, Kunio, *Sogo shosha: The Vanguard of the Japanese Economy* (Tokyo, 1982).

Yoshino, M.Y., and Thomas B. Lifson, *The Invisible Link* (Cambridge, MA, 1986).