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THE ROLE OF NETWORKS IN THE EARLY DEVELOPMENT OF THE BORNEO COMPANY LIMITED

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Abstract

This work provides an analysis of a British international business organisation of the nineteenth century. The contention is that this represents and excellent example of the use of networks in the development of foreign direct investments. The case presented is that of The Borneo Company Limited (BCL) and what is demonstrated is that in the absence of formal hierarchical structures, Britain was able to produce genuine multinational companies as early as the mid nineteenth century, using networks as the means of economic co-ordination.

The evidence put forward shows that BCL co-ordinated the transfer of capital and technology from Britain to Asia, and that it took responsibility for the management of such capital and technology in the foreign locations to which this investment was directed. Thus, although BCL's origins are founded in the mercantile activities of trading groups such as Hendersons or McEwans, the company itself rapidly evolved into an investment group in its own right.

The early history of BCL has been misunderstood in some respects, as certain activites that the company controlled have been ascribed to others, most notably Hendersons merchants. Therefore, this paper will go some way to setting the historical record straight. The search for theoretical explanations of the development of the company has uncovered a series of control networks that were extremely successful, however idiosyncratic.

I. Introduction

The importance of networks in facilitating the process of economic co-ordination has been increasingly recognised by writers concerned with the evolution and operation of business enterprise (Jones, 1992; Boyce, 1995; Casson, 1997; Ebers, 1997). The networks in question constitute established social structures, encompassing both commercial and non-commercial groupings of individuals (Casson and Cox, 1997), that promote a climate of mutual trust which is sufficiently robust to allow decentralised decision-making to be undertaken with little or no supervision. By incorporating within an economic framework the network linkages that already exist between certain individuals, processes of co-ordinated decision-making can be facilitated which would prove too costly or economically inefficient to operate under the alternative institutional arrangements provided by impersonal market relations or corporate administrative hierarchies.

The role of such network-based co-ordination is liable to be especially important when real-time dialogue between the parties involved in interdependent decision-making is either not possible or is very costly (Casson and Cox, 1993); circumstances that are particularly characteristic of the international economy in the era before the advent of commercial aviation and modern telecommunications technology. Thus it is reasonable to hypothesise that the functional significance of networks will have been evident in pioneering the growth of international trade and foreign direct investment from out of an expanding British economy during the nineteenth century, as the rapidly industrialising nation sought to exploit the benefits of comparative advantage that had been identified by Ricardo and subsequently extolled through the philosophy of liberal political economy generally - most notably in the teaching of John Stuart Mill (Roll, 1939: 298-303; 353-67).

Britain's trade and foreign investment activities during the nineteenth century are replete with examples of networks (Cain and Hopkins, 1993; Davis and Huttenback, 1988). International trading, as it passed from the control of state-sponsored chartered trading companies into private hands, was typically conducted and financed by merchant houses based around tightly-knit family and kinship groups which thus constituted small-scale international business networks. The more successful of these merchant houses developed in one of two main ways during the course of the nineteenth century. Those who generated strong financial reputations began to engage in the provision of services such as the endorsement of bills of exchange (accepting) and the sponsoring of loans for foreign governments and companies operating overseas (issuing). From around 1870, the houses that specialised in providing these financial services began to be termed merchant banks (Roberts, 1993: 23), and these institutions played a leading role in stimulating the growth of Britain's foreign portfolio lending. Alternatively, some merchants had developed a much stronger presence in the overseas markets which they served, and these houses began to utilise their location-specific knowledge in order to identify and exploit investment opportunities which complemented their trading operations.

These two types of merchant, whilst constituting independent organisations, frequently held family and kinship ties which bound them together. Thus the Scottish house of Matheson & Co. maintained close links with Jardine Matheson & Co. of Hong Kong and Jardine Skinner & Co. of Calcutta. Similarly, another Scottish house, R. & J. Henderson, was closely allied to the Calcutta-based agency of George Henderson & Co. These social linkages created an increasingly complex structure of interpersonal networks which, during the second half of the nineteenth century, began to pioneer the growth of Britain's foreign direct investment by channelling finance, resources and factors of production abroad, and generating a return flow of commodities, royalties and dividends. Chapman (1985; 1992) has demonstrated how a number of the merchant houses with well-established branches overseas evolved into British-based investment groups. These investment groups, whose activities covered a wide range of industries, can be seen to constitute the origins of a number of Britain's pioneering multinational corporations.

The transfer of foreign direct investment from Britain was boosted between 1855 and 1862 by the passage of legislation which enabled the promotion of joint stock companies featuring limited liability (Payne, 1985). This made it possible for British-based promoters to float small companies designed to invest in a commercial opportunity abroad, where investors could subscribe a fixed amount of their capital without fear of any extended liability. These business enterprises have generally come to be termed freestanding companies (Wilkins, 1988). The archetypal freestanding company was an enterprise that was financed in Britain to undertake one specific purpose in response to an investment opportunity which had arisen in an economy abroad; at the time of its formation it had no links with any other firm operating in the same industry and it brought together finance and resources in a purely bi-national fashion.

The character of freestanding companies has constituted an issue of debate among business historians, principally in relation to whether or not their activities constituted a form of foreign direct investment (Casson, 1994; Corley, 1994; Hennart, 1994a,b). The question is complicated by the fact that companies which were originally floated as freestanding concerns often evolved into something different over time. Wilkins' original identification of the phenomenon, however, was based fundamentally on the character of such organisations at the time of their formation. In fact, a number of the companies that were formed in this way subsequently became incorporated into broader economic networks which reduced their free-standing nature. Others, particularly those designed to provide infrastructural services, ultimately became incorporated into the local economy and ceased to be foreign investments. Yet others evolved into more complex organisations and, in so doing, changed from freestanding to internationally-integrated multinational firms as explained by Jones (1996: 36).

Thus the mechanisms of international business co-ordination which radiated out from the British economy in the nineteenth century constitute a complex and varied phenomenon. Whilst it is clear that the concept of networks underpinned much of this activity, detailed empirical evidence illustrating their role and form of operation is sparse. Gathering together evidence to demonstrate how such inter-personal networks supported economic co-ordination over distances requires an appreciation of the social history of the groups in question and some archive evidence of the decision-making process. In what follows, an attempt has been made to use a specific case-study to demonstrate the efficacy of a network arrangement, both in its own terms and in relation to an alternative mechanism which broke down before it could be brought into operation. The case in question concerns the circumstances which led to the formation of the Borneo Company Limited, one of the very earliest examples of a British-registered and financed joint stock limited liability company which was designed to be used as a conduit for foreign direct investment.

II. Origins of the Borneo Company Limited

The Borneo Company Limited (BCL) was founded in London as a joint stock, limited liability company on 8 May 1856 (Griffiths, 1977: 129-30). The company's origins, however, are to be found more than a decade earlier when a retired army officer of the British East India Company, James Brooke, acquired control of a tract of land in Borneo. Brooke had earlier invested a substantial share of his inheritance to fit out a schooner and travel in search of an opportunity to trade in the islands of the East Indies (Longhurst, 1956: 16). Having set up a base in Kuching, on the north coast of Borneo, Brooke provided the local ruler of Sarawak, Muda Hassim, an uncle of the neighbouring Sultan of Brunei, with protection against raiding tribes (Uchibori, 1988: 253).[1] Brooke's intervention quickly suppressed the revolt and in reward for this act of military opportunism Brooke was granted a settlement by the Sultan of Brunei which gave him authority over the region of Sarawak. Thus in 1841, Brooke assumed the title of Rajah and began to exert control over the indigenous tribes and explore the possibilities for developing a trade in the local primary resources.

Brooke's position as Rajah of Sarawak, however, was not immediately sanctioned by the British government. On the contrary, an official inquiry into Brooke's conduct was instituted at which Brooke himself was called to give evidence (Tarling, 1982). Not until five years had passed, and the inquiry had cleared Brooke of any wrongdoing, did the relationship between the British government and the "White Rajah" of Sarawak begin to develop in a productive way. An important factor which served to cement Brooke's relationship with the British authorities was the decision by the Sultan of Brunei in 1846 to cede the nearby island of Labuan to Britain for use as a naval base and as a refitting port for ships engaged in suppressing piracy (Havinden and Meredith, 1993: 44). In

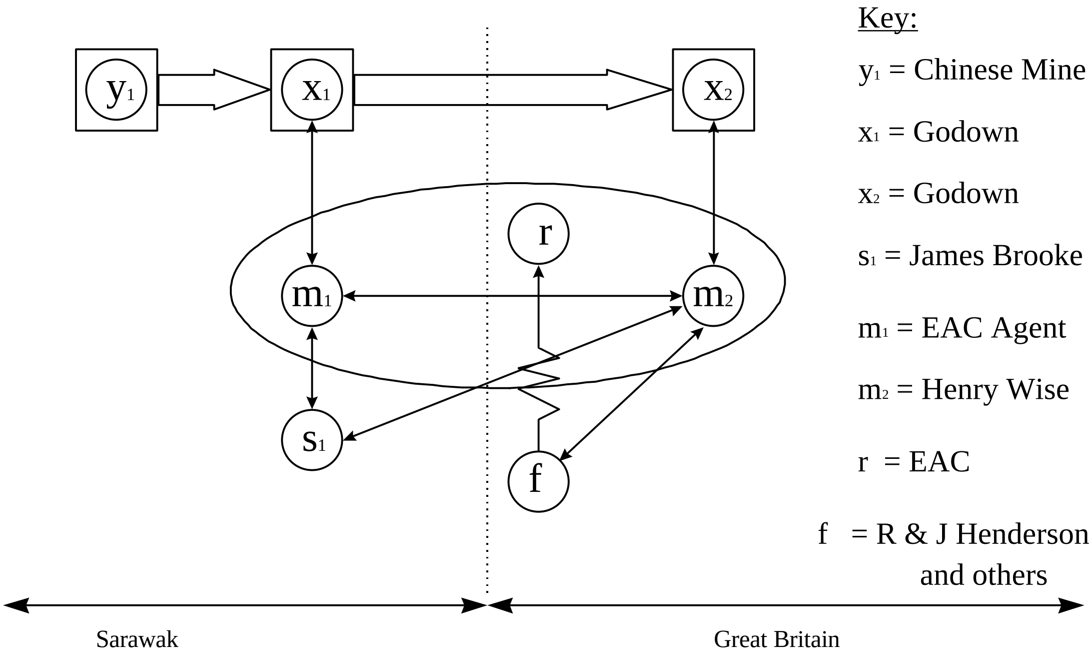
1847, Brooke was appointed as British governor of the colony of Labuan, and as consul general to the island of Borneo. The following year, Brooke's status with the British authorities rose still further when he was knighted.

During the period of the 1840s, as he struggled to establish his claim to authority in Sarawak, Brooke formed a relationship with Henry Wise, a London-based merchant who sought to exploit the potential profits offered by the control of natural resources in Sarawak and Labuan.[2] In 1850, the monopoly rights to trade between Sarawak and Britain were vested by the British government in a trading company called the Eastern Archipelago Company (EAC) which was officially granted its Royal Charter in 1851. The principal shareholder of the EAC was Henry Wise, who had authority for managing the trade between Brooke's settlement and the merchant houses of London. Plans were drawn up to commence trade in antimony, supplies of which were already being generated as a by-product of the small scale gold mining operations developed by the indigenous Chinese population.[3] Various merchant houses in Britain, including the Glasgow and London-based partnership of R & J Henderson, has already agreed to put up capital in order to help finance the operations of the EAC.

The network structure created by the formation of EAC is depicted in Figure 1 using the conventions developed by Casson (1997). In this form of exposition, the basic objective is to separate out the flows of physical resources in an economic system from the flows of information which are used to co-ordinate them. Thus material resources, shown as double lines, flow between plants, which are illustrated as squares. The process of co-ordinating these flows is undertaken by a group of economic actors, some of whom are based at the same locations as the plants themsleves, but more importantly by merchants and others who operate away from the location of the physical activities. Linkages between these agents, who are identified by circles, are shown as single lines. One important point to note is that, whilst the resource channels flow in only one direction (with compensating factor and financial flows balancing the equation but not shown in the diagrams) information flows in both directions.

A diagramatic exposition of this type can be used to incorporate all the flows of economic significance in a network, but the crucial element in analysing such economic systems is the co-ordination process denoted by the information flows shown in Figure 1. In this depiction of the proposed EAC co-ordinating network, the principal economic information flows between Henry Wise in London and an agent of the EAC in Sarawak. Brooke, the sovereign government, communicates with both, in the case of the agent face-to-face and in the case of Wise via correspondence. The diagram also shows the group of financiers, including R. & J. Henderson, whose financial support of EAC is illustrated by the 'spring' symbol which indicates the role of such financiers in absorbing financial fluctuations. The firm and its officers are enclosed by an elipse, designed to demonstrate that the information flows within this space are complemented by formal institutional arrangements. One particularly important point which Figure 1 illustrates is that the EAC network served to provide a linkage between Brooke and Henderson which was to be of great significance in the future development of the trade between Sarawak and Britain.

Figure 1. Proposed Network for Eastern Archipelago Company, c.1850



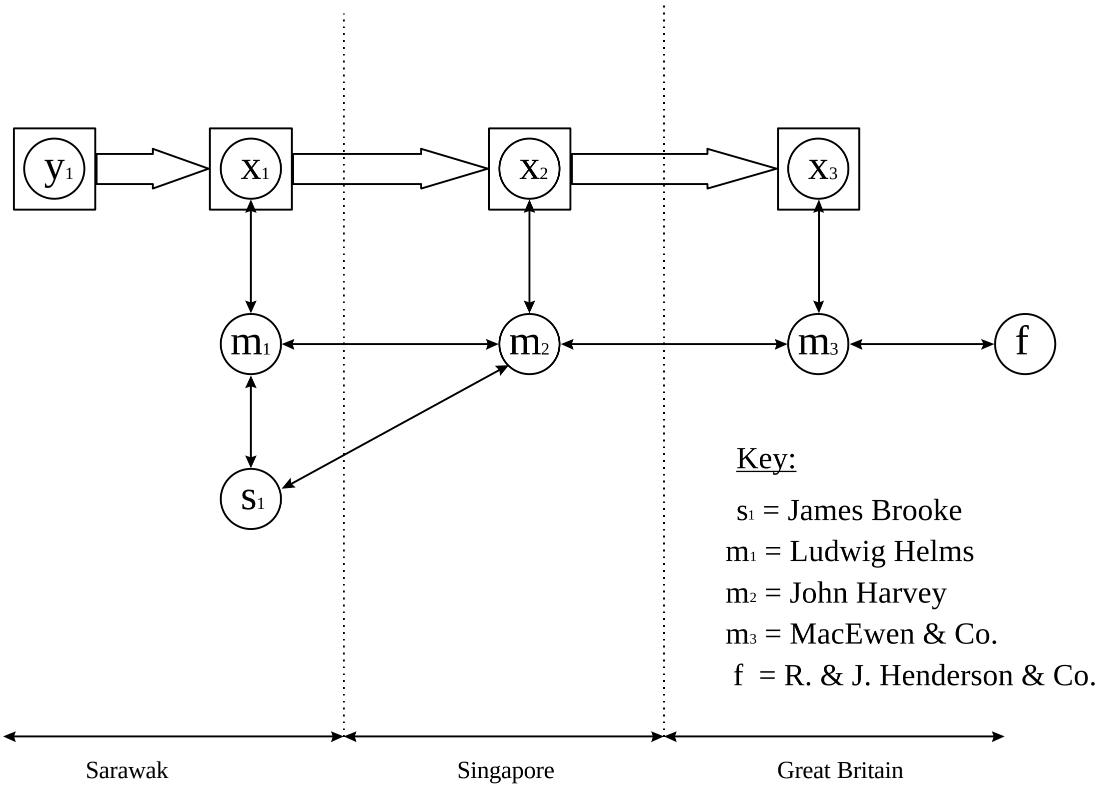
Before this trading network actually began to operate, however, a disagreement arose over the level of Wise's remuneration. Brooke, unable to discuss the issue directly with Wise, prohibited the EAC from engaging in any trading activities out of Sarawak and instituted a series of law suits to have the company's Royal Charter rescinded. At the same time, the Henderson merchants withdrew their offer of financial backing for Wise and, by so doing, strengthened their standing and credibility with Brooke. The Royal Charter of the EAC was terminated in 1851 and although the company continued for a period of time to conduct an export trade in coal from the island of Labuan, in 1857 the shareholders voted to dissolve the company. Thus the EAC was ultimately wound up in 1862 after an abortive attempt to sell out to BCL, and Wise's interests in the resources of Sarawak was terminated (Tarling, 1982).

From an economic perspective, the inability of Brooke and Wise to reach an accord from their geographically remote locations is readily explicable from bilateral bargaining theory. EAC's monopoly control of the trade links between Sarawak and Britain had the effect of neutralising Brooke's own monopoly over the resources of the hinterland which his position as local sovereign bestowed on him. The disagreement between Brooke and Wise over the latter's remuneration was therefore a predictable, if not inevitable, outcome of a bilateral monopoly trading position with no determinant solution. Once Brooke had established his political credibility in London, his interests were better served by gaining independence from the EAC and forging links with a more competitive mercantile network over which he could exert greater leverage from his monopoly position. Thus the arrival in Sarawak of Ludwig Helms, a Danish merchant who had previously been operating out of Singapore, offered Brooke the opportunity to create an alternative channel between Sarawak and Britain.

Helms' activities in Singapore had brought him into contact with the Glasgow-based merchant house of MacEwen & Co. which operated branches in Batavia (Java) and Manilla as well as Singapore. Control of this family-based trading network had passed into the hands of Robert MacEwen in 1849, and its branch in Singapore had at that time been placed under the supervision of Robert MacEwen's former clerk, John Harvey (Longhurst, 1956: 17). Harvey had quickly established himself as a leading member of the Singapore mercantile community and he and Helms must have been fairly well acquainted before the Dane's departure for Sarawak.[4] After the removal of EAC's charter in 1851, therefore, MacEwen's office in Singapore began to act as an agency for Brooke, with Helms managing affairs in Sarawak. For the purposes of conducting this Borneo trade, Harvey registered a firm with the Singapore Chamber of Commerce which he called the Borneo Company.

Following the creation of the Borneo Company in Singapore, Sarawak's export trade passed through the hands of the MacEwen merchants within the trading network illustrated by Figure 2. The channelling of the physical trading flows through Singapore now became a formalised feature of the network arrangements, illustrated by the double lines, rather than simply an incidental consequence of Singapore's role as the South-east Asia trading hub. In co-ordination terms, Harvey's intermediatory role in Singapore placed him at the centre of the information exchanges. As well as linking together the two ends of the trading system, via his communications with Helms and Brooke in Sarawak and the MacEwen merchants in Britain, Harvey also maintained the link between Brooke and Henderson that had first been created by the flotation of the EAC. Harvey's Singapore-based Borneo Company thus embraced the critical linkages that would serve to underpin the London-based Borneo Company Limited when this assumed the core co-ordinating role in 1856 even though, in the event, additional networks were drawn into the arrangements before the institutional framework emerged in its final form.

Figure 2. The Singapore-based Borneo Company Network, 1851-6



III. Creating an integrated operation

During the early 1850s, as the possiblity of expanding the range of products supplied from Sarawak began to emerge, plans were developed to float a private joint stock company in London. The desirability of forming a London-based joint stock company clearly lay in the ability it provided to raise additional investment capital in order to build the business up. From Brooke's point of view, however, transferring the control of the Borneo Company to London increased the problem of determining whether his own interests were being adequately served. Before locking himself into a new arrangement for handling the Sarawak trade therefore Brooke solicited a trusted acquaintance, John

Charles Templer, to serve as his representative in London. With this arrangement in hand, Brooke was prepared to allow the merchant firm of R. & J. Henderson to promote the Borneo Company Limited (BCL) as a joint stock, limited liability enterprise, utilising the newly passed legislation granting limited shareholder liability for private companies registered in Britain.

The authorised capital of BCL at the time of its formation was £250,000, of which £60,000 was issued in 600 shares of £100. The single main providers of investment capital were the members of the Henderson firm itself, who between them subscribed to 20 per cent of the first issue, and one of the partners, Robert Henderson, was appointed as the first chairman of BCL. Brooke's ally John Charles Templer took a 5 per cent holding and was appointed as deputy chairman. Of the remaining four board members, two were drawn from MacEwen & Co. including John Harvey who was transferred from the Singapore branch to act as managing director in London. In addition, as was commonly the case, BCL's board also included a Member of Parliament, James Dyce Nicol, whose presence ensured both a voice in Parliament and a reputation for respectability and sound conduct which was of importance both for attracting new investors and establishing good relations with trading partners. The founding directorate of BCL are shown in Table 1.

Table 1. Initial Registered Board of Directors of the Borneo Company Ltd. (1856)

Designation	Name and Affiliation
Chairman	Robert Henderson. Also of R. & J. Henderson, Merchants
Vice Chairman	John C. Templer. Also member of H.M. Court of Exchequer
Member	James D. Nicol. Also a Member of Parliament
ditto	John Smith
ditto	Francis Richardson. Also a partner in MacEwen & Co.
ditto	John Harvey. Also a partner in MacEwen & Co.

Source: Inchcape Archives

At the time of its formal incorporation, BCL was designed to facilitate trade between Sarawak and Britain in much the same way that EAC had earlier. The difference in structure between BCL and EAC was quite limited, as a comparison of Figures 1 and 3 illustrates, but it now constituted a set of arrangements that Brooke was content to place his trust in. This trust between Brooke and the officers of BCL is illustrated using Casson's convention of double arrows to represent the information flows. A further point of distinction between EAC and BCL is that the latter company was in a position to use its capital to undertake direct investments in Sarawak. Indeed, the company's Deed of Settlement (effectively its Articles of Association) classified its main purpose as being:

> For working ores veins and minerals of various sorts in the Island of Borneo or in some part or parts thereof and of raising and getting Antimony, Coal, Iron, Ironstone, Lead, Tin, Copper and other metals and minerals there from and of dressing and smelting and manufacturing the same or some of them when raised and of

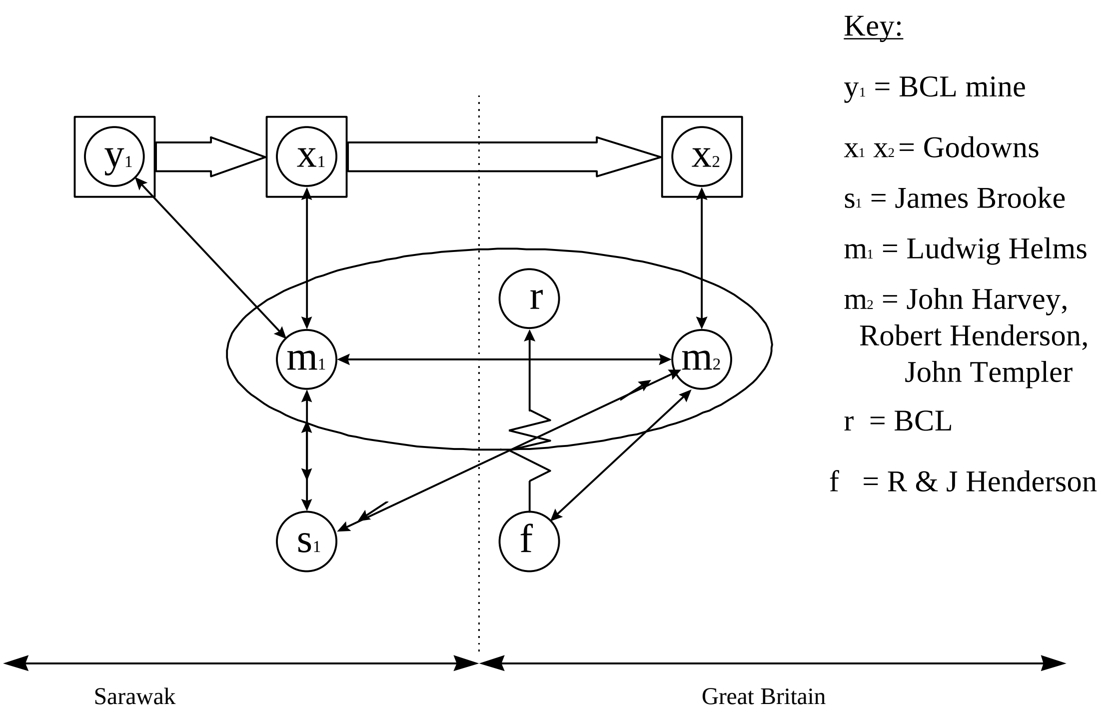
> exporting the same....and also for carrying on business in all parts as general and commission merchants, ship owners, miners, agriculturists and planters.

Thus the capital resources of BCL were designed to be used in support of mineral extraction. As such, the company's most important asset constituted its agreement with James Brooke which granted BCL, in exchange for payment of royalties to the Sarawak Treasury, the following development rights:

> To take over and work Mines, Ores, Veins or Seams of all descriptions of minerals in the Island of Borneo, and to barter or sell the produce of such workings.

Soon after its formation, therefore, BCL set about gaining direct control of the antimony and other deposits, much of which was located within the area settled by Chinese immigrants (Jones, 1986: 198). In Figure 3, the physical assets in Sarawak are now shown as being owned by BCL.

Figure 3. Proposed Network of the Borneo Co. Ltd at its Incorporation, 1856



The organisational structure of BCL reflected the fact that the company was designed to manage its own resource investments abroad. John Harvey was installed at the company's office in London as managing director, and from here he maintained the dialogue with Helms and Brooke in Sarawak that he had previously conducted from his office in Singapore. Harvey's main responsibility in this capacity was to oversee the transfer of both the technology and human resources which were required for BCL to successfully prosecute its business objectives. In addition, the London office arranged for the analysis of any new geological specimens which were discovered in Sarawak (Longhurst, 1956: 55), and gathered intelligence that was felt to be of strategic importance, for which significant payments were sometimes made.[5]

BCL's direct investments in mineral extraction were also supported by a policy of vertical integration into related activities. The decision to invest in shipping facilities occupied a number of BCL's early board meetings in 1856 before an investment of £12,500 was made in a steam ship to serve the coal trade between Sarawak and Singapore. The purchase of a second ship, soon afterwards, indicates that the BCL board were unwilling to trust their need for regular berths to the vagaries of the free market in chartered commercial shipping and the cargo consignment trade provided by independent operators. These investments, which were held in a subsidiary company called the Sarawak Steamship Co., provided the first regular steamship service between Kuching, the main port of Sarawak, and Singapore.

Further expansion into upstream value-adding activities was proposed in relation to the trade in antimony. In 1864, the BCL management in London discovered that a patent had been registered by a Mr Todd for using antimony in the production of paint. An agreement was concluded with Todd for developing the process as an employee of BCL under which he was to be paid an annual salary of £500 for superintending the manufacture, together with a fee based on the number of tons of antimony processed.[6] In the event, no paint ever seems to have been manufactured, but the episode illustrates both the willingness of BCL to expand into related activities in Britain itself, and the highly active management role which the London headquarters played in developing the organisation.

Expansion via vertical integration, in support of BCL's mining activities in Sarawak, was coupled with horizontal expansion as the company began to deal in exports of sago, oil, pepper, tea, hides, coconut, rubber, timber and rice. As Jones (1986: 202-3) points out, this often involved some degree of local production capacity, such as in the case of sago manufacturing, for which Helms founded a refinery where the raw material was purified prior to export to Britain. Like much of the mining activity, BCL wrested control of the sago plantations from immigrant traders, assuring full control of property rights before engaging in direct investment. In relation to its activities in Sarawak, therefore, BCL utilised the network structure in which it operated to support the international transfer of know-how and to explore new markets for the various natural resources which Brooke's control of the region allowed access. The head office in London was the hub of this process and provided BCL with its strategic dynamism.

IV. International Expansion and Diversification

The initial focus of BCL's operations on the resources of Sarawak did not preclude the company from trade and investments elsewhere in the Far East. Naturally, given the position of Singapore as the trading centre of the region, BCL retained an office on the island. However, Harvey himself remained in Singapore only sufficiently long to divest himself of other commercial interests before taking up the role of managing director in London. Meanwhile, around the time that BCL was being set up in London, Helms travelled to Bangkok in order to establish a branch for MacEwen & Co. in a market where commercial relations had only been put on an official basis. A treaty had been negotiated between the governments of Britain and Siam by Sir John Bowring in 1855 which came into force only in April 1856 (Falkus, 1989: 128). Helms himself returned to Sarawak soon after the branch had been set up, and it was subsequently placed under the control of Samuel Gilfillan who had previously worked for the Singapore merchants Gilfillan, Wood & Co. (Jones, 1986: 20). MacEwen & Co. obtained their first contract to export rice from Siam in

September 1856, and a branch was set up in Hong Kong the same year which imported consignments of rice from the operation in Bangkok (Longhurst, 1956: 35). A board minute at BCL's London headquarters noted that MacEwen & Co.'s branches in Singapore, Batavia and Siam were formally transferred to BCL in 1857.[7] Thus, within the period of a year, the board of BCL assumed control of a Far East trading network, as well as the company's initial investments in Sarawak.

As this trading network was being assimilated, however, BCL's development was suddenly turned violently off course. A combination of the threat provided by BCL's proposed mining investments, and a decision to demand increased tax payments for opium by the Brooke regime, led to a revolt by the Chinese in Sarawak during which a young consultant metallurgist working for BCL was murdered (Jones, 1986: 198). This uprising of 1857 was a severe blow to the company which badly shook the confidence of the shareholders in London. Although the revolt was quelled relatively quickly, the planned investment programme in Sarawak was dislocated by the need to restore a climate in which mining could safely recommence. In 1858, Helms left Sarawak and travelled to London to discuss the position with the board of directors. According to Longhurst (1956: 53), after a period of negotiation Helms was formally appointed as BCL's manager for Sarawak and set sail once again for the Far East in February 1860. However, not until some eight years after his return to Kuching did BCL begin to make serious headway with its investments in Sarawak.

The uprising in Sarawak created both a problem and an opportunity for the board of BCL in London. Finding itself with surplus capital funds at its disposal, the company was in a position to support alternative investments abroad which held the potential for profits. One such opportunity was brought to the board's attention by the allied firm of Messrs. George Henderson & Co., merchants of

Calcutta, whose principal, George Henderson, was related to Robert Henderson of R. & J. Henderson & Co. founders of BCL. At the time of the revolt in Sarawak, George Henderson had been on a visit to Calcutta - which was itself in the throes of the mutiny - and had met up with George Acland, an English entrepreneur who had set up India's first jute spinning mill in 1855 (Morris, 1982: 567; Wallace, 1909: 17). The jute industry in Bengal had been stimulated by the Crimean War which had cut off supplies of Russian flax to the sacking industry in Dundee and, as a result, exports of jute yarn from India to Britain had surged (Goswami, 1991; Sarkar, 1989). Although Acland's initiative had not been very successful, his experience suggested the possibility of manufacturing jute sacks directly within India. Henderson therefore persuaded the board of BCL to invest in an integrated power spinning and weaving mill for the manufacture of gunny bags near Calcutta, at Barnagore (Morris, 1982: 567; Chapman, 1992: 118) which George Henderson & Co. managed on BCL's behalf. Shortly afterwards, BCL also invested in a sugar mill in Bengal, which George Henderson & Co. also managed.

By the time that these investments were made, therefore, BCL had developed into a complex international trading and investment network, the elements of which drew on a wide range of personal and commercial groupings (see Figure 4). The decision to invest in India struck certain contemporary observers as being inconsistent with the company's nominal affiliation to Borneo. Assessing developments in June 1858, for example, the Hong Kong Daily News - aware of BCL's branch operations within its own locality - felt compelled to comment:

> that this Borneo Company not only trades in the capacity of an untrammelled individual with as much regard to Borneo as to any other places in which he might have business relations, but it is also

> embarking large sums in the erection of machinery in Bengal.... Such an enterprise is, of course, highly laudable, but what in the name of all that is consistent, has the Borneo Company to do with it?

The passage seems to convey more than the simple sense of unease regarding the operations of a company whose nominal identity suggests a fixed locus of activity. Rather, it serves to illustrate the sheer novelty of a company such as BCL which in the mid-nineteenth century co-ordinated the operations of a multinational collection of fixed investments from its headquarters in London.

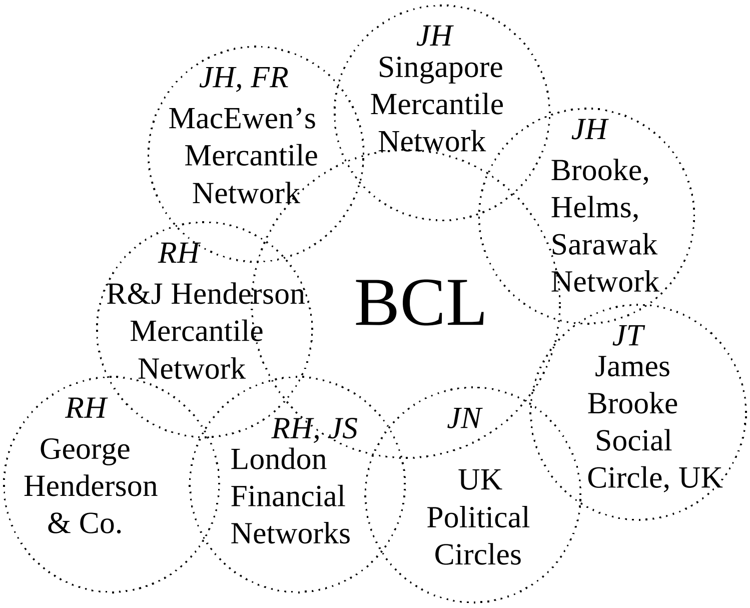
V. The Nature of the Borneo Company Limited

Owing to its foundation at the very threshold of the limited liability era in Britain, BCL can realistically be characterised as being among the pioneers of a new form of British foreign investment. Wilkins has demonstrated that the period from 1870 witnessed a rapid growth in British foreign investment through the medium of just such limited liability companies. As legally independent entities designed to operate abroad the distinctive feature of these companies, serving to separate them analytically from the subsidiaries of conventional multinational corporations, is that they were all, at origin, administratively independent organisations (Wilkins, 1988: 262). This managerial independence is certainly applicable to BCL at its foundation in 1856. However, the London office of BCL quickly emerged as a centre of international co-ordination for the management of investments in different parts of Asia, thus shifting its orientation from that of a freestanding company to that of the strategic corporate centre of an international business enterprise.

In performing the functions of technology transfer via foreign direct investment, and international managerial co-ordination via information flows, the headquarters of BCL transformed itself into a multinational direct investor (Casson, 1997: 227). Two main factors distinguish this form of multinational to that described by Chandler (1987). Firstly, the British firm's markets were not in the countries in which they invested, meaning that a company such as BCL did not need to engage abroad their own salaried sales force in order to market their goods. Secondly, British multinational investors such as BCL, whose origins were in trade, inclined naturally towards utilising existing inter-personal networks for the purpose of managerial co-ordination, rather than seeking to develop the hierarchical management system which American mass producers had utilised at home and which they attempted to use as they extended their productive operations abroad.[8]

The fact that BCL also accords with Chapman's (1985) concept of an investment group, serves to support his contention that such organisations can be viewed as the British equivalent of early American multinational corporations. BCL's development into an international management and investment network brought together MacEwen & Co. and George Henderson & Co.'s location specific knowledge and contacts, with important political, social, technical, factor and financial networks in Britain as illustrated in Figure 4.

Figure 4. Networks Related to the Board of Directors of BCL, 1856



Key to Initials

JH = John Harvey

JT = John Templar

RH = Robert Henderson

JN = James Nicol, MP

JS = John Smith

FR = Francis Richardson

Chapman's paper, however, has rather obscured the significance of BCL as an example of an investment group by attributing its operations to the Hendersons, to whom it was merely allied. In addition, Chapman's concept of an investment group extends beyond the role of co-ordinated management of transferred technology, to embrace a situation where agency houses engaged in the provision of financial services. Thus his paper includes within the definition of investment group the agency houses in Calcutta which assumed the role of quasi-banks in the early nineteenth century by channelling local investment funds into various activities - such as indigo plantations - which in some cases they subsequently assumed the management responsibility for. However, the essential feature of both American multinationals and British investment groups as co-ordinating mechanisms of international business is that their foreign investment revolved around the transfer of technology (including management), rather than simply the transfer of finance which became the principal role of merchant banks.

Chapman's definition of an investment group fails to properly distinguish between these two forms of investment and has subsequently led to a degree of understandable confusion (Turrell and Van-Helten, 1987; Chapman, 1987).

The early history of BCL, therefore, requires an appreciation of the way in which international mercantile networks, linked to other relevant networks in Britain, were able to provide the framework for international business co-ordination in a world where international transportation was slow and communication was limited, before the telegraph, to a speed dictated by that system of transportation. These international business networks relied for their success on the trust which spatially remote individuals were able to place on the integrity of interdependent decision-makers. In the absence of such a climate of trust, as the episode of the EAC illustrates, feasible mechanisms of international co-ordination were liable to break down. The geographical extensiveness of BCL's international business network was also important to its success. Without the opportunity to invest capital in the jute manufacturing plant in Bengal, via their link with George Henderson & Co., there seems to be little prospect that BCL could have survived the Chinese uprising in Sarawak which broke out within a year of the company's formation.

Of course, the benefits of trust between individuals, whilst it reduces the costs related to adverse behaviour (e.g. opportunism, shirking), does not in itself guarantee the managerial competence of the decision-maker in question. Trust is not a substitute for management expertise *per se* and it may well have been the case that organisations with managerial hierarchies were more effective at promoting the various skills of the management art. There is certainly circumstantial evidence, for example, to suggest that Helms made a number of inept management decisions whilst in charge of operations in Sarawak, and it is perfectly clear that the relationship between him and the board in London deteriorated badly in the early 1870s. In addition, some opportunities for gaining economies of scope from the company's range of operations were undoubtedly not exploited by BCL's management during its formative years. That said, however, the international business networks of inter-personal trust that were fashioned by the early mercantile trading groups as they expanded into foreign investment do seem to have been an essential factor in facilitating a managerial capacity for companies who, like BCL, must be considered as the world's first truly multinational enterprises.

Notes

[1] Discussing the position of the indigenous Iban ethnic group, Uchibori notes that, "Iban society in the pre-Brooke period was in a condition of perpetual, if often latent, warfare."

[2] According to the archives of the Borneo Company Limited, Wise first proposed the idea of a partnership to Brooke in 1843. Inchcape Archives (IA), BP Ms27278.

[3] Antimony is a bluish white metal that had been mixed with lead for use in the production of ammunition, and with tin for the manufacturing of "type-metal" for printing.

[4] Although Griffiths (1977: 129) states that in 1851, when Helms first arrived in Sarawak, he was "in no way connected with MacEwen & Co.", evidence in the Inchcape archive from the High Court in London clearly shows that Helms "had been employed as a clerk at a salary for Messrs MacEwen & Co. in Singapore" before the formation of BCL in 1856.

[5] See, for example, the decision to pay a Mr Cruickshank £50 for "important information" from the Far East. Minutes of the Board of Directors of BCL, 1 July 1856, IA, BP Ms27178/1.

[6] IA. BP. Ms27178/2.

[7] IA. BP. Ms27178/1. There is no record of MacEwen's branch in Manilla being transferred to the control of BCL however.

[8] It is perhaps worth noting that even American companies with well-developed administrative hierarchies at home needed to rely to a greater degree on personal trust in their early overseas investments. Thus management of the American Tobacco Company's investments in China through BAT were largely delegated to a trusted ally (albeit a salaried employee of the company) of the chairman James Duke (Cox, 1997).