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Business Strategies in Late Colonial Indonesia

Abstract

After a historiographical introduction on company histories, four basic business strategies (continuity, expansion, quick gains and survival) are analyzed with the aid of a number of cases in Java and the Outer Islands. This is done within the context of backward and forward linkages. Continuity, expansion and quick gains strategies were all found to exist, as were backward linkages. At the same time with regard to capital investment and profits the situation in Java and the Outer Islands was found to differ fundamentally.

1. Introduction

Few facets of the colonial past are capable of stirring up so much controversy as the operations of private Western firms in the colony. They may form, to some, the very rationale for the Western presence in the colony and also provide an easy rhetorical target asserting national pride. It is a matter charged with emotional undertones and one has to take care not to let the discussion degenerate into counterfactual speculation that may justify just about anything. Our concern here is with private Western corporations in late colonial Indonesia at a time, in the first half of the twentieth century, when a national economy was gradually taking shape. I will argue that the contribution of private Western firms in that process can only be fully understood by reviewing the business strategies actually pursued.

There are two approaches by which to study the participation of private Western firms in the economy of late colonial Indonesia. One is to take a macro perspective applying aggregate statistics and aiming to cover the entire body of such enterprises. This is an approach which stresses the elaboration of comprehensive networks and by definition transcends the individual company (Lindblad, 1991: 189–212).[1] The other approach ventures into the business histories of individual firms focusing on actual operations in a specific location of production. Only the latter approach can shed light on business strategies

[1] See also J.N.F.M. à Campo, 'The rise of corporate enterprise in colonial Indonesia, 1893–1913' (above).

but, by its very nature, it furnishes us with less solid ground for generalizations.

In current management literature 'strategy' is increasingly viewed as a more complex concept than a conventional blueprint for relating company effort to a predicted future environment. It is now also conceived to be self-evolving over time, *i.e.* a continuous adjustment to changing circumstances that can only be inferred from the actual outcome (Quinn, Mintzberg & James, 1988; Mintzberg, 1994). Such a concept induces us to search for consistency in actual behaviour over time rather than to rely on stated objectives and intentions. I distinguish between four types of strategies:

(1) continuity;
(2) expansion;
(3) quick gains;
(4) survival.

These four are not altogether mutually exclusive. A certain degree of co-existence is probable and it is above all a question of identifying which strategy should receive relatively more emphasis than the other. It is further assumed that profit-seeking lies at the core of business operations. Western firms did not set up operations in colonial Indonesia for charitable purposes. However, the maximization of returns on invested capital can take several forms depending on, among other factors, varying time perspectives. This is where strategy enters the equation.

But we wish to get one step further than simply identifying prevalent business strategies. The impact of the choice of strategy, whether explicit or implicit, needs to be assessed as well. What were the consequences for the local economic environment? For, even if general economic development can scarcely be considered a prime objective of the average Western business firm in colonial Indonesia, the successive enlargement of the scale of operations, for the benefit of the owners of capital, does not preclude positive effects on the surrounding local economy. The very context of the formation of a national economy in colonial Indonesia directs our attention to structural effects with a long-term potential, *i.e.* linkages with other lines of production rather than short-run increases in export revenue, tax receipts or expenditures on consumer goods due to a rising effective demand. It has become customary in the literature to distinguish between backward and forward linkages respectively pertaining to deliveries or facilities preceding production and a further processing of the goods produced (Hirschman, 1977; Thee, 1977: 122, 129; Ariff & Hill, 1985: 49–53).

In the following article, I will draw on both published literature and selected case studies. An initial brief survey of the historiography to date is followed by an analysis of two firms in Java and two firms in the Outer Islands, thus also acknowledging a profound dichotomy between two paths of economic development within the Indonesian archipelago (cf. Lindblad, 1990; Clemens, Lindblad & Touwen, 1992). The firms in Java were both involved in export agriculture: the tea, rubber and rice combination of Michiels-Arnold in Priangan (West

Java) and the sugar estates of Wonolangan (East Java). The firms in the Outer Islands were chosen from both export agriculture, the tobacco estates of Deli (East Sumatra), and mining, the Billiton tin company on the like-named island.[2]

2. A brief historiography

There are numerous official company histories but few independent scientific works on Western firms with operations in late colonial Indonesia. In addition, much recent discussion has focused on a juxtaposition of private Western entrepreneurship in the colonial past with either social or political history. Labour conditions of coolies have attracted considerable attention and generated some controversy but in this business strategies figure only in the background, at best as a variable describing general company outlook or at worst as an assumption that cheap docile labour was absolutely indispensable (Langeveld, 1978; Stoler, 1985; Breman, 1987[1]; Kamphues, 1988; Wertheim, 1993).[3] The link with political history has been laid in a discussion which has its origins in the drawn-out international dispute on the validity of economic explanations of modern imperialism. Again business strategies provide the context but not the prime object of study (Van Goor, 1986; Lindblad, 1989; Locher-Scholten, 1994). The analysis of the development of individual business firms as such has so far been confined to a handful of firms and segments in the overall economic structure.

Two individual firms have recevied an in-depth treatment in book-length studies: the copra oil giant 'Insulinde' and the Koninklijke Paketvaart Maatschappij (KPM, Royal Packet Company). Both are important studies dealing with major companies during a period of rapid change, *i.e.* the downfall and collapse of 'Insulinde' immediately after the First World War and the continuous expansion of the KPM up to 1914. Both are solidly based on primary source material and both make elaborate use of concepts derived from business economics and accounting.

At the end of the First World War, 'Insulinde' emerged as the single largest industrial firm in colonial Indonesia (outside oil) but shortly after 1920 it went bankrupt thereby discouraging other Western entrepreneurs from entering copra refining for decades to come. Kamerling ascribes this major failure to internal factors rather than external ones. Vast inventories of copra were valued too highly and as a consequence results appeared far more favourable than was

[2] Algemeen Rijks Archief (ARA), The Hague: Cultuur- en Handel-Maatschappij Michiels-Arnold 1887–1957 (Michiels-Arnold); Cultuur-Maatschappij Wonolangan 1895–1963 (Wonolangan); Deli Maatschappij en de daarmee gefuseerde bedrijven 1869–1967 (Deli); Billiton Maatschappij 1852–1970 (Billiton). The archival research was in part carried out by students in economic history at the University of Leiden: L. Janson and F.L. van Oosterom (Michiels-Arnold), A.C.F. Metz and M.A. Uylenbroek (Wonolangan), T. Haarsma and C. Schotsman (Deli), D.P. Doornbos and P.J. de Witt Wijnen (Billiton).

[3] See also: V.J.H. Houben, 'The Labour Inspectorate and labour conditions in the Outer Islands and Java, 1900–1940' (above)

actually the case. Yet the all too optimistic image of the firm, including generous dividend payments, was essential to attract fresh capital from Dutch banks, which in turn added the burden of interest payments to an already strained budget. The deviation between management policy and reality was made possible by the long lines of communication between the headquarters in the Netherlands and production sites in Java and Sulawesi. In addition, the death of the founder and executive director, Streefland, was exceptionally untimely since a crisis was imminent and little authority had been delegated to lower levels of management (Kamerling, 1982). At 'Insulinde' the leading business strategy shifted very quickly from expansion to survival. The latter strategy failed.

The KPM was set up in 1888 and soon managed to gain control over a very substantial proportion of shipping in the Indonesian archipelago, not least aided by an alliance with the colonial government that awarded monopoly rights for the transport of government goods and personnel in return for the maintenance of unprofitable lines to remote destinations. A Campo argues that the KPM therefore transcended the level of operations of a conventional private shipping company, 'run for profit', and developed into a 'social technological system' of intertwined economic, maritime and political networks. Substantial profits were made but dividend payments to shareholders remained fairly moderate at an annual average of 7 per cent over the period 1888–1914. Substantial reserves were built up and the real value of assets and nominal equity diverged ever more sharply from one another (A Campo, 1992: 471–476, 528–531, 656). The predominant business strategy of the KPM was continuity, at any rate after the initial aggressive expansion and squeezing out of rivals, Western and Chinese alike.

Studies like those on 'Insulinde' and KPM are conspicuous by their absence for the huge sector of export agriculture, whereas mining has received attention that might appear to be out of proportion to its share in the total economy of colonial Indonesia. Oil, however, forms a special case. Here we come across the most renowned success story of all among private Western enterprise in colonial Indonesia, the Royal Dutch/Shell. The pioneering phase, including the alliance between the two large oil companies and the creation of their common subsidiary, Bataafsche Petroleum Maatschappij (BPM; Batavian Oil Company) in 1907, is described in minute detail in Gerretson's monumental work from the 1930s (Gerretson, 1932–1941). Yet, the distance between business historian and company directors was noticably short and the interesting era of consolidation after 1914 has not been treated at all. More recent contributions to our knowledge about the history of this firm are confined to a global survey for internal and public relations purposes and parts of a television documentary (Gabriëls, 1990).[4]

In recent years a number of miniature studies have been devoted to mining (other than oil). I myself have looked into the history of the Oost-Borneo

[4] Information on the Royal Dutch/Shell was included in the BBC documentary 'The Prize; The Epic Quest for Oil, Money and Power', broadcast in July 1992.

Maatschappij (OBM; East Borneo Company), a coal mine in Kutai in East Kalimantan. This was one of the very first Western pioneers in the region but for many years this firm could only stay in business because it received royalties from oil exploitation on its property. A viable coal exploitation only materialized in the 1920s and then the strategy shifted from survival to continuous expansion (Lindblad, 1985). A nearby rival, 'Poeloe Laoet' in the southeasternmost corner of Kalimantan, was set up as a private coal mine in 1903. Continuous losses made sheer survival an urgent problem. After a decade the proprietors managed to sell the whole firm to the Dutch state, probably at a rather good price since rumours circulated about a possible German interest in the mining installations and the newly erected infrastructure on the island of Pulu Laut (Baks, 1989). A complete picture of Western coal mining in Kalimantan should also include the 'Parapattan' mine in the northeast, a full subsidiary of the KPM.[5]

A frequent theme in studies of overseas business enterprises is that of the wide gap between management in the metropolitan country, *i.e.* the Netherlands, on the one hand and the colonial periphery on the other. The tone was already set by Kamerling in the very subtitle of his book on 'Insulinde': *Bedrijfsvoering in de verte* ('Management at a distance'). This theme is elaborated in a brief study of the Salida silver mine in West Sumatra demonstrating how incessant intriguing and strife in The Hague co-existed with a high degree of continuity and stability in the overseas location of production (Scholte, 1989). Here a strategy oriented towards quick gain appears to have prevailed among the directors but repercussions were felt only long afterwards in West Sumatra.

There has been an increasing attention paid both to the potentials and achievements of industrial processing in colonial Indonesia, developments that in a sense would have anticipated today's efforts to reduce dependency on oil and gas revenues (cf. Dick, 1993). Studies of Western manufacturing (excluding oil refining) in colonial Indonesia have focused almost exclusively on textile firms in Java and the belated policy of promoting industrialization adopted by the colonial government on the very eve of the Second World War (Kroese, 1980; De Raadt-Apell, 1981; Telkamp, 1981). In the firms concerned the actual time horizon was too short to allow any strategy other than initial expansion and consolidation.

The turmoil of the Japanese occupation, the war waged for independence and the assertion of Indonesia as a sovereign state shattered many of the illusions maintained by Western managers with respect to the time horizon of operations in the archipelago. New policies were implemented but the firm belief in the indispensability of Dutch business for any economic development in Indonesia remained largely unshaken. This transitional phase in the history of Western private business in Indonesia has so far received fairly scant attention and there is ample

[5] ARA: Koninklijke Paketvaart Maatschappij (KPM): Vol. 179–195. Parapattan. In 1989 an unpublished M.A. thesis at the University of Leiden, by L. Baltzer, was devoted to the history of this coal mine.

room for a diversity of interpretations. Baudet and Fennema consider the relationship between Dutch business at large and the Dutch government and argue that the firms quickly switched to a reorientation of objectives and policies that in fact anticipated the nationalizations in 1957/58 (Baudet & Fennema, 1983). This hypothesis, however, has been disproven in the specific case of the Handels Vereeniging 'Amsterdam' (HVA; Trading Association 'Amsterdam'). At the HVA the strategy remained essentially one of continuity (Goedkoop, 1990).

This brief historiographical survey has underscored the urgent need for more scientific studies of individual Western firms in colonial Indonesia in which a rigorous application of concepts derived from business economics may serve to identify the prevalent strategy. This is especially interesting with regard to rapidly expanding and highly successful enterprises.[6] Several examples from the literature suggest that continuity very often constituted the master strategy of doing business in the economic environment of the colony.

3. Java and the force of tradition

Michiels-Arnold and Wonolangan represent two key characteristics of the Western segment of the economy in late colonial Java: a historical tradition of long standing and a continuous striving to reap maximal gain from the latest opportunities on the world market. The former characteristic was especially pronounced in Michiels-Arnold boasting an ancestry from the days of the Dutch East India Company (Vereenigde Oost-Indische Compagnie; VOC), whereas the latter was more conspicuous in a major sugar producer such as Wonolangan. We will consider both companies in due order, in so doing paying special attention to profits, dividends and possible spill-over effects on the local economy.

Michiels-Arnold was a family firm based on the possession of a vast tract of land purchased from the VOC in the eighteenth century. The land was located between Bogor and Bandung in West Java and had an area of about 115,000 hectares. The firm was incorporated in 1887 with an equity capital of 4 million guilders distributed over the seven daughters and one son of the proprietor of the land, J.W. Arnold, who had died in 1885. Initially all of the land was leased to Chinese rice farmers but in the 1890s the company's administrator took to exploiting some parcels himself thereby also experimenting with other crops such as coffee and cinchona. After 1905 all parcels were exploited directly by the company and the emphasis now shifted from rice to tea, *i.e.* also from production for local sales to export production. At a slightly later stage, after 1910, the coffee and cinchona plants were replaced by Hevea.

The twin basis of supplying both rubber and tea to the world market proved rewarding in the 1920s but made the whole enterprise rather vulnerable in the

[6] An example of such an analysis is provided in an unpublished Master's thesis on the trading concern 'Internatio' in the period 1900–1940 submitted by G.E. Sipos at the University of Leiden in 1992.

1930s. Among the innumerable agricultural estates in West Java, Michiels-Arnold was unique on two accounts: the sheer size of its landholding and because of some legal prerogatives inherited with the land. In its dependency on world market prices, however, the fate of this enterprise was probably that of many other estates in West Java (Godée Molsbergen, 1937: 7, 27, 32–42).[7]

Nominal equity remained 4 million guilders throughout the late colonial period. The ratio between profits and equity rose from about 12 per cent around 1920 to 27 per cent in 1926 and fell below 10 per cent from 1930. Yet no actual losses were reported even at the nadir of the depression. Recovery followed in 1936 and brought the profit/equity ratio close to an average of 8 per cent in the latter half of the 1930s. Such a cyclical pattern of variation in profitability over time is very familiar.

Michiels-Arnold remained essentially a family firm even though shares, without voting-power, increasingly passed into other hands after 1902. Several of the shareholders were not actively involved in the daily affairs of the company. This is reflected in a certain preference for dividend payments above creating reserves (Figure 1).[8] In the 1910s at least 80 per cent of profits was paid out as dividends which implied that even the statutory reserve was built up at a very slow pace. Only the rising profit rate during the 1920s enabled continued dividend payments to co-exist with an accumulation of reserves. The average share of dividends in profits fell to 53 per cent in the late 1920s. The statutory reserve reached its prescribed magnitude at one-tenth of equity in 1925 and additional reserves touched 1 million guilders by 1927. The depression occasioned a return to the policy of using most of profits for dividend purposes. The average share of dividends in profits amounted to 96 per cent in the early 1930s and 88 per cent in the latter part of the decade. Meanwhile additional reserves shrank at an alarming speed. Such funds were apparently used to augment revenues so as to keep stated profits above zero and not to have to discontinue dividend payments.

An exceptional feature on some of the lands of Michiels-Arnolds was the persistence of corvée labour, the right of the landowner to dispose over one day, or one night, of unpaid labour per man and week. It was an anomaly dating from the nineteenth century, highly unusual on privately owned estates and bought off by the local inhabitants whenever they were in as position to do so. On the Cileungsi land alone, southeast of Lemah Abang, revenues from such compensatory payments rose to almost 80,000 guilders in 1930 which corresponded to more than one-half of the total profits from that part of the Michiels-Arnold estate. In addition, *cukai* had to be paid at one-fifth of the value of the *padi* harvest on these lands. Such burdens certainly contributed to the positive results of Michiels-Arnold and formed, as it were, a kind of

[7] ARA: Michiels-Arnold: Vol. 109, 126.

[8] Source to Figure 1: Jaarverslag (1920–1939) [to be consulted in the library of the Royal Tropical Institute at Amsterdam].

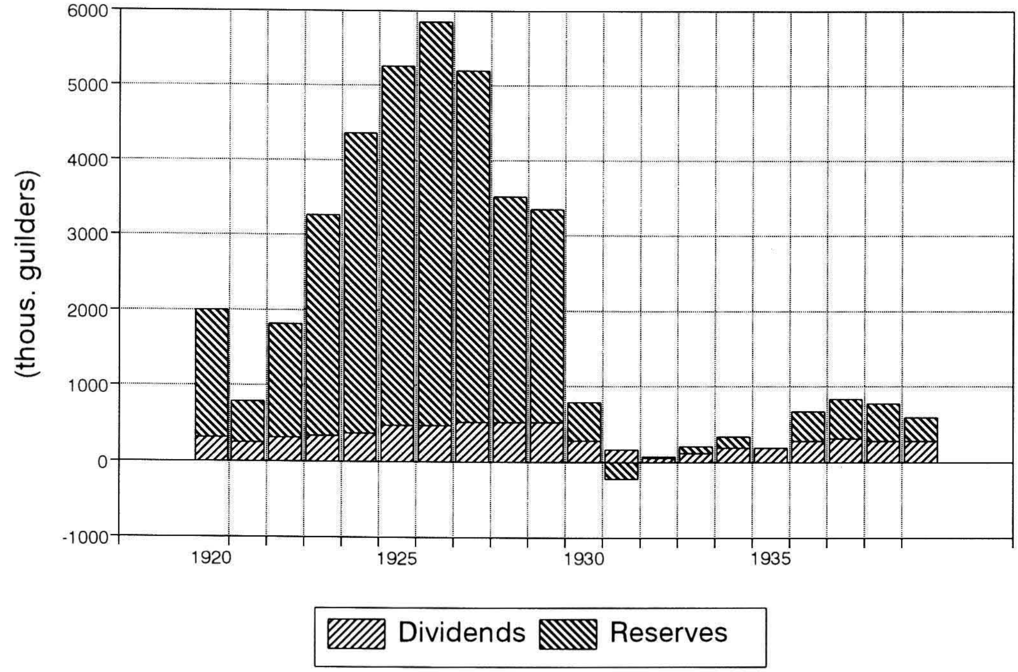

Figure 1. *Results at Michiels-Arnold, 1920–1939.*

negative backward linkage between foreign-controlled export production and local agriculture.

Backward linkages of a more positive nature materialized in the form of brick-yards and tile-works serving the construction of housing and factories on the Cileungsi and Cibarusa lands. In 1938 a separate subsidiary, Bomema, was established to cover construction and measurement. Infrastructural provisions included a hydro-electric plant servicing the tea factories at Selawangi and Tinggarjaya. The company constructed a tramway connecting the *sawah* with the rice husking-mill at Lemah Abang. This was also used, for a fee, by both the government and the BPM. All these facilities were necessary to support production in the first instance. Other facilities were auxiliary but did not involve any further processing, *e.g.* the subsidy to the *desa* school, the small polyclinic at Cibarusa and the football-field at Selawangi. There was even an attempt at some simple technological transfer by organizing demonstration planting of tea on sites that local residents allegedly were in the habit of passing by (Godée Molsbergen, 1937: 45, 52).

Wonolangan emerged in 1895 as the amalgamation of three sugar estates, Oemboel and Wonolangan near Probolinggo and Wringin Anom not far from Bondowoso further east. At first the Nederlandsche Handel Maatschappij (NHM; Netherlands Trading Company) was instrumental in providing access to market outlets and capital. The NHM retained a special link with Wonolangan estates and was referred to as 'supervisor' of operations but it is not very clear what this title actually entailed, if anything.[9]

The area under cultivation at Wonolangan stayed virtually constant at 2,500 hectares until the early 1930s but total output doubled between 1914 and 1928. The increase in productivity of the land may be ascribed to both intensified cropping and a higher-yield cane. Land productivity rose especially fast from 1927 due to an increasing application of the 'wonder cane' variety called 'P.O.J. 2878' (Van der Zwaag, 1991: 96–97). The depression brought not only declining prices and losses but also the necessity to curtail output. The successive implementation in Java of the international sugar restriction as stipulated in Chadbourne Agreement caused the termination of production at one of the three estates, Oemboel. On this occasion, in 1937, equity was reduced by one-half. The history of Wonolangan, as far as this is recorded in the company archives, does not include many other dramatic events. Wonolangan was probably a relatively conventional kind of sugar company in Java.

Cane planting and harvesting and mechanized refining were fully integrated into one process of production at Wonolangan. Demand for labour varied by the season and much additional employment was created during the harvesting 'campaigns' drawing workers from as far afield as Madura. Virtually all capital equipment was imported from abroad, especially from the Netherlands. Improvements in local infrastructure included the construction of a small railway to Probolinggo and the maintenance of *desa* roads between the sugar factories and the railway. Hand-carts were rented from local residents for the transport over the *desa* roads. The latter activity constituted a backward linkage in the most genuine sense of the word but it is difficult to ascertain whether this augmentation of local income was more than marginal. Between 1914 and 1940, Wonolangan invested on average about 500,000 guilders per year in production facilities and infrastructure.

Initial equity capital at Wonolangan amounted to 1.8 million guilders and was only raised once, in 1919, to 3.5 million guilders. Substantial reserves were built up reaching a maximum level in 1929 at 4.6 million guilders, a figure that may be compared with the reserves in 1914, barely half a million, or as of 1935, 320,000 guilders. Dividends were paid out in all years except 1931–1937. The rate varied very considerably from 5 per cent or less in 1917, 1930 and 1938 to a staggering 100 per cent in 1920 when sugar prices soared. Until 1929 the dividend rate exceeded the one at Michiels-Arnold but the situation was reversed during the 1930s (Figure 2).[10]

The contrast between Michiels-Arnold and Wonolangan in terms of dividend policy reflects differences in both production line and business strategy. Tea and rubber prices both climbed towards a peak in 1925 but then fell sharply to

[9] ARA: Wonolangan: Vol. 113–121.

[10] Source to Figure 2: ARA: Wonolangan: Vol. 121; Jaarverslag (1920–1939).

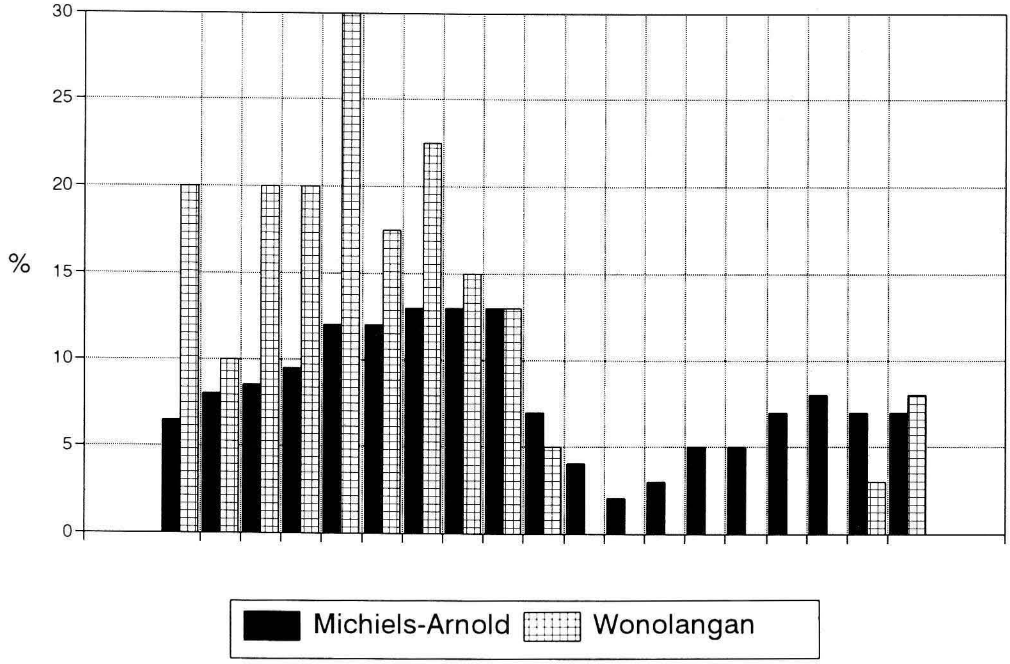

Figure 2. *Profits in Java estates, 1921–1939.*

recover only from 1934 onwards. Sugar, however, never actually recovered from the onslaught of the depression. The originally good perspectives for Michiels-Arnold deteriorated but then improved again, whereas for Wonolangan the trend was ever downward, from bad to worse.

In addition there was a stronger emphasis on quick gains in the case of Wonolangan and an almost fanatical adherence to the principles of continuity in Michiels-Arnold. The generous dividend payments at Wonolangan during the 1920s reveal that reserves were considered sufficiently large and capital needs for new investment were moderate. Technological improvements rather than massive capital outlays brought about the increase in productivity. In Michiels-Arnold levels of dividend rates diverged far less between good and bad times and here even diversification as such was applied to safeguard continuity. The difference in time perspective was only accentuated in later years. Planting was resumed on several of the Michiels-Arnold estates in 1946 and 1947 and the firm only terminated its Indonesian business in 1956. By contrast, it is doubtful whether much of the sugar land of Wonolangan was recovered after 1945.

Both Michiels-Arnold and Wonolangan altered the surrounding economic environment of their locations of production in respectively Priangan and East Java. There was an emphasis on improvements in local infrastructure to ensure smooth operations. Backward linkages were especially strong in Wonolangan whereas attempts at a certain transfer of technology were not entirely lacking in Michiels-Arnold. Forward linkages failed to materialize.

4. New horizons in the Outer Islands

Both Java and the Outer Islands offered interesting investment outlets for private Western capital. Yet conditions for operations were very different. In Java commitments followed well-trodden paths of existing lines of production whereas in the Outer Islands there was more of what is commonly understood under the word 'pioneering' in terms of innovation and starting out under untried conditions with facilities as yet limited. Investment outside Java was supposedly associated with higher risks warranting higher profit margins. This may be illustrated by the high dividend rates achieved in leading corporations outside Java such as Billiton and Deli (Figure 3).[11] Billiton and Deli ranked significantly above Michiels-Arnold and Wonolangan, with Billiton paying out relatively far more than Deli under virtually all circumstances. The ranking remained intact throughout both the rapid expansion in the 1920s and the depression in the 1930s.

Billiton is the oldest of all the four case studies cited here. It was founded in 1860 with support from Prince Hendrik, the younger brother of King William III, and based on a forty-year concession for tin mining on the island of Belitung. Initial equity amounted to 5 million guilders. An attempt to accelerate the prolongation of the tin concession, under very propitious conditions, caused a scandal in Dutch politics forcing the resignation of the responsible Governor-General F. 's-Jacob in 1884. In the event the concession was renewed in 1892 for another 45 years with a higher share for the Dutch state in profits than what had been envisaged at the time of the scandal.

History appeared to repeat itself in the early 1920s when the company again tried to accelerate a renewal of the concession. Again there was resistance from the States-General in The Hague and a new structure was created, in 1923, with a holding company and several subsidiaries for the purposes of exploration and mining throughout the Indonesian archipelago. Henceforth the Dutch state received 62.5 per cent of profits but also shared in the risks. At long last, the second concession was renewed in 1927, but at that time the diversification, that had been launched as a precaution, was already in the pipeline and in the 1930s Billiton also became involved in such ventures as nickel mining in Sulawesi (Kamp, 1960: 54; Broersma, 1985: 27–48; Gruythuysen and Kramer, 1990: 20–24). After the Second World War it became a wholly-owned subsidiary of Royal Dutch/Shell. In 1994, finally, it was taken over by a South African mining combination.

[11] Source to Figure 3: ARA: Billiton: Vol. 41–44; Deli: Vol. 39.

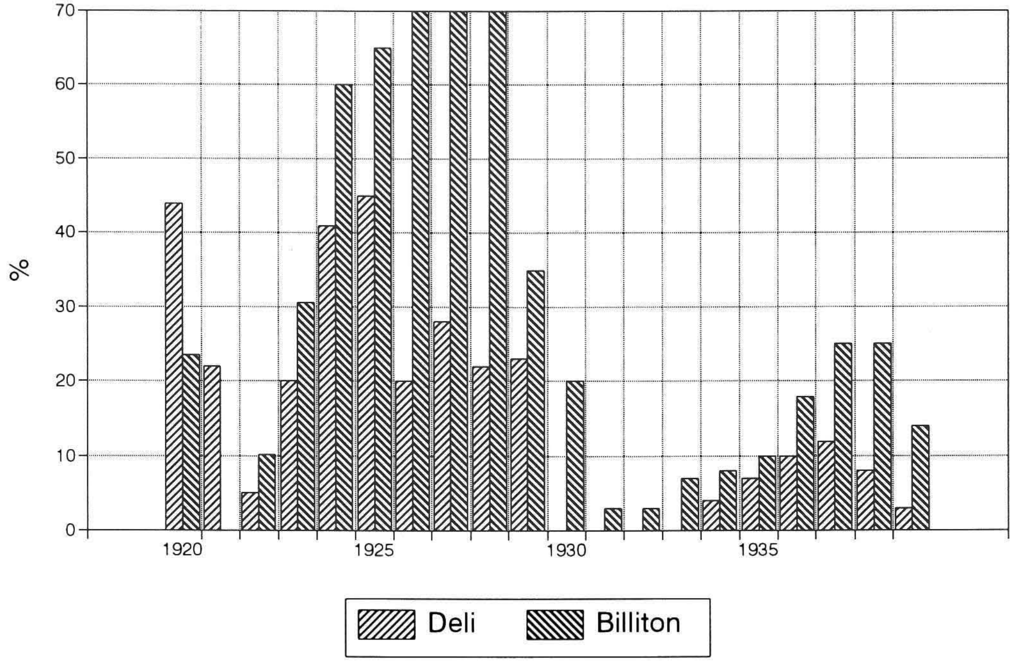

Figure 3. *Profits in Outer Islands, 1920–1939.*

The profit/equity ratio was remarkably high at Billiton throughout the inter-war period with the sole exception of 1921, 1931 and 1932 when world tin prices slumped. On other occasions, *e.g.* in 1923 and 1925, profits (from which dividends were still to be deducted) even exceeded equity. The profit/equity ratio only fell substantially in 1928 when equity was doubled, from 5,250,000 to 10.5 million guilders. Another upward adjustment followed in 1939 when equity was increased by one-third.

The high profit/equity ratio at Billiton, at any rate up to 1928, must be viewed against the background of a conservative policy with respect to equity. Billiton had started in 1860 with an equity of 5 million guilders but this was soon reduced to 1 million guilders in order to be able to accelerate depreciations on the tin concession, born of a precaution bordering on the obsessive against the risk of not getting the concession renewed. Extreme profits in 1917 allowed for dividend payments at 439 per cent, as such probably unprecedented among foreign investors in colonial Indonesia, of which most, 4 million guilders or 400 per cent, were used to restore equity to its original level of 5 million guilders (Kamp, 1960: 278). Profitability levels were without doubt satisfactory at Billiton but appeared excessively so because equity was long kept artificially low.

At Billiton such sizeable reserves had been accumulated by 1914 that a restoration of original equity, at 5 million guilders, would already have been possible without resorting to extraordinary dividends. The policy of building up reserves continued up to 1920 when an accumulated value of 7.7 million guilders was reached. However, two-fifths of this, 3.2 million guilders, were needed to absorb the heavy losses incurred in 1921. Towards the end of the 1920s a high priority was attached to paying out as much as possible in dividends rather than replenishing reserves (Figure 4).[12] This policy remained in force even at the nadir of the depression, in 1931 and 1932, when a small dividend was paid out despite actual losses.

The emphasis placed on lavish dividends at Billiton can be interpreted in one of two ways. Either reserves were deemed sufficiently large already or the owners considered Billiton in the first place as a source of revenue rather than as a long-term investment in productive capacity, perhaps again for fear of eventually losing the concessionary rights. Budgetary interests of the colonial government, entitled to a large proportion of dividends, may have played a role in this. At any rate, the long-term strategy was not strongly geared towards continuous expansion. The heavy state involvement also underscores that Billiton occupied a rather exceptional position among foreign firms operating in the Outer Islands. In fact there was only one other supplier of tin in colonial Indonesia, the state-owned mines on neighbouring Bangka.

Billiton was a large enterprise employing more than 20,000 labourers, primarily Chinese coolies, around 1920 who in turn were supervised by a tiny group of Europeans, some 200 persons. Labour conditions were reported to be far better than at Bangka (Mollema, 1922: 151, appendix 3; Somers Heidhues, 1992: 125–126). Backward linkages abounded, especially in infrastructure, since no large-scale mining using modern technology had been carried out there before. A network of roads and tramways extending all over the island was constructed in close co-operation with the colonial authorities from the 1860s. The years 1898–1904 saw the erection of waterworks, telecommunications and electricity stations. Until 1904 the company itself maintained steamship lines with Singapore and Batavia. All these facilities obviously benefited the local economy. The company even boasted that free tram rides in Manggar encouraged social intercourse among the indigenous population (Kamp, 1960: 106).

Rails for wheel-barrows connected the various mines with the harbours at Tanjung Pandan and Manggar but smelting was increasingly done at the Straits Trading Company in Singapore which, incidentally, implied that the Billiton product was marketed as 'Straits tin'. Only one brief experiment with smelting was carried out on the island of Belitung itself. The smelter at Lipat-Kajan near Manggar started functioning in 1910 but was closed again in 1921. The supply of coal needed in the smelt-ovens was erratic and it proved difficult to recruit qualified Dutch engineers to supervise production. This experiment might, had it not been discontinued so soon, have developed into a major forward linkage

[12] Source to Figure 4: ARA: Billiton: Vol. 41–44.

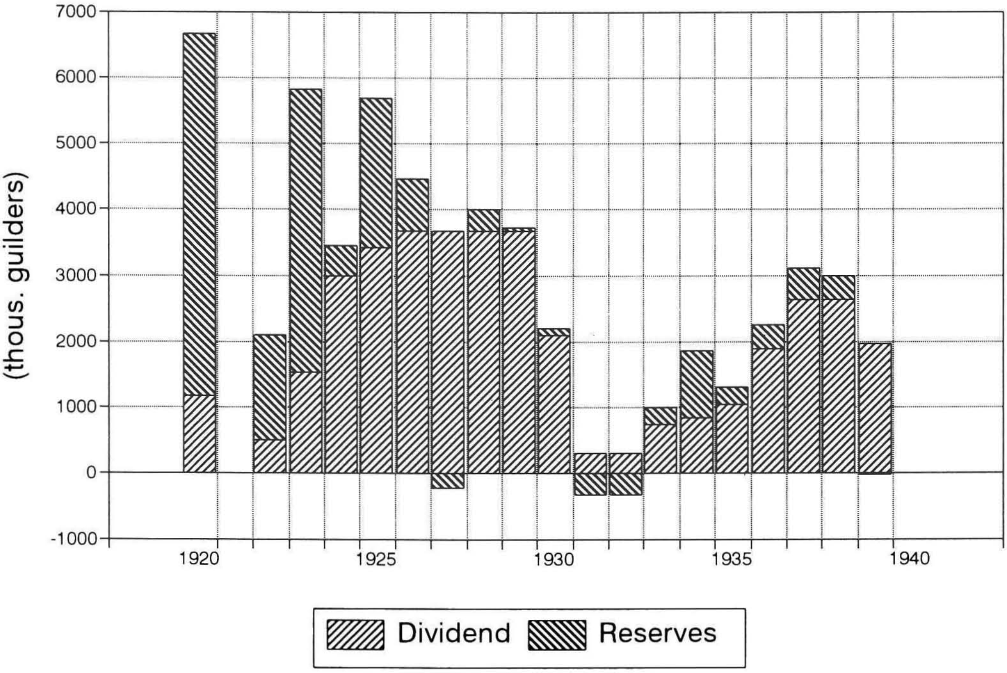

Figure 4. *Use of profits at Billiton, 1920–1939.*

at Billiton. Subsequent plans for one central tin smelter in Java, serving both Billiton and Bangka, never got off the ground and eventually facilities for further processing were erected in the Netherlands, at Arnhem (Kamp, 1960: 175–180).

The Deli Company in East Sumatra was the first one of its kind to set up business on a large scale in the tobacco belt of East Sumatra. It was incorporated in 1869 with an equity capital of 300,000 guilders and substantial backing from the NHM. Its long-time director, Jan Theodoor Cremer, moved easily between Dutch politics and business circles and in the late 1890s doubled as Minister of Colonial Affairs. The company took the lead in the proliferation of tobacco estates that were established in East Sumatra in the 1870s and 1890s and continuously claimed the position of chairman of the employers' organization in the region, the *Deli Planters Vereniging* (DPV).

Nominal equity at Deli was raised successively, to 8 million guilders at the turn of the century, 30 million guilders in 1920 and 40 million guilders in later years. Much new capital was spent on takeovers of other estates. A tendency to concentrate control and ownership into fewer hands in fact marked the development of the entire tobacco industry in East Sumatra and eventually Deli came to play first fiddle in an oligopolistic structure of four major concerns. These four, including also the Deli-Batavia, Senembah and Arendsburg companies, controlled virtually all of the tobacco production in East Sumatra. Deli did make an attempt to diversify its activities but this was largely confined to rubber and remained subordinate to the high-quality tobacco for which it was renowned among cigar smokers all over the world (Gedenkschrift, 1919, 1929, 1942).

In more than one respect Deli may be considered a prototype of Western pioneers outside Java. It arrived early, expanded quickly and set an example to others. It relied heavily on personal contacts, not only with Sultan Mahmud at Medan at the time the concession was granted but also with the NHM in Amsterdam and the BPM in The Hague. It catered exclusively to the international staple for tobacco at Amsterdam and deliberately strove to establish an oligopoly among suppliers in East Sumatra. It even gained a certain notoriety through its vehement opposition to the abolition of the ill-reputed penal sanction in coolie labour relations, a standpoint which could conveniently be voiced via the DPV (Langeveld, 1978: 300–302; Van Kommer, 1989: 100–102). Its management policy was self-assertive and expansive, but also conservative and cautious. This paid off in particular during the depression of the 1930s which Deli survived with surprisingly few scars.

The financial position at Deli was sound. Solvability, total liabilities divided by non-equity capital, was high by any standard only rarely falling below 2.5. Liquidity, *i.e.* liquid assets plus credits granted against outstanding debts, was also satisfactory at an average of 1.35. Total capital, *i.e.* equity and debts, grew at an annual rate of 15 per cent in the years 1922–1925 and declined by a far smaller percentage between 1926 and 1933. Profitability, here related to total capital instead of equity alone, climbed to 25 per cent in 1924 and averaged 9.3 per cent at the end of the 1920s (Figure 5).[13] Actual losses were registered only in the severe depression years of 1931–1933 and the recovery from 1935 pushed the average profit rate for the latter half of the 1930s above 5 per cent. Deli managed to tide over the depression of the 1930s on account of its financial strength and sizeable reserves but also by rigorously cutting costs, *e.g.* through massive layoffs (Gevers, 1991). Ironically, the company was in a position to reduce the labour force fast when the depression set in precisely because the penal sanction was gradually being abolished from 1931, a process which implied a shift to shorter contracts for coolie labourers.

Production at Deli was considerably more labour-intensive than at Billiton and in 1920 the labour force at Deli neared 40,000 coolies. More than one-half consisted of Javanese men, whereas Chinese coolies only accounted for one-quarter of the total. Just as at Billiton, yet in contrast to Wonolangan and Michiels-Arnold, virtually the entire regular labour force had been imported and inevitably formed an alien element in the local economy. Again an inaccessible region with scarcely any infrastructure had to be opened up for the operations of foreign capital. Local infrastructure was improved rapidly during the closing

[13] Source to Figure 5: ARA: Deli: Vol. 39.

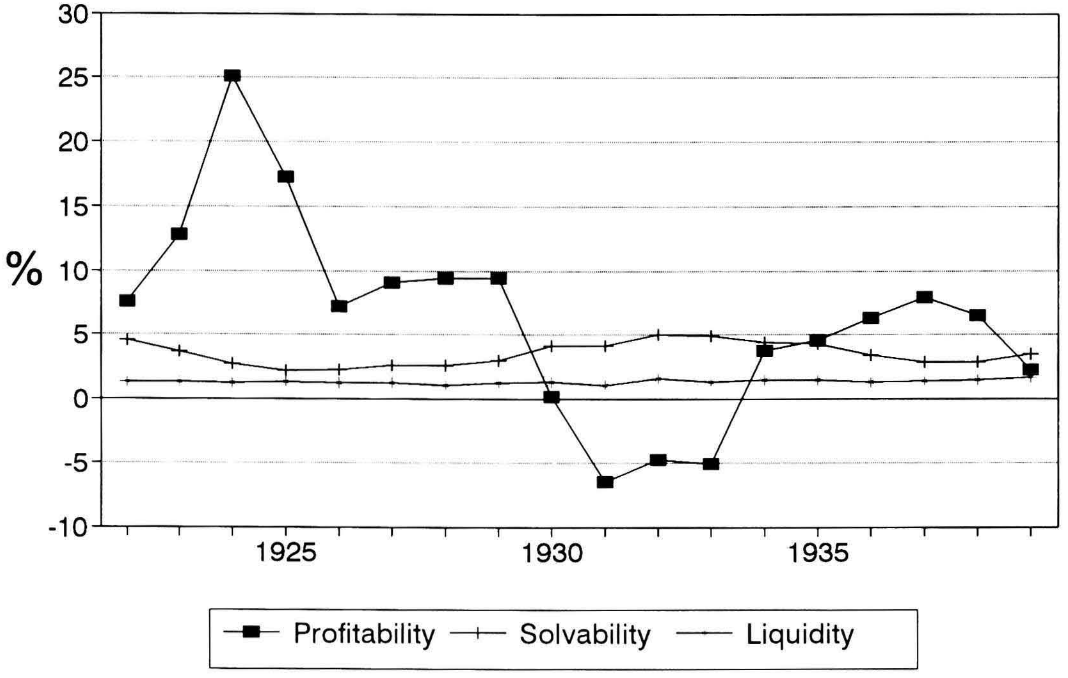

Figure 5. *Results at the Deli Maatschappij, 1922–1939.*

decades of the nineteenth century, sometimes with and sometimes without financial support from the colonial government. In 1883, when the colonial authorities showed little interest in constructing a railway connection with the port at Belawan, a separate company was established for this very purpose, the Deli Spoorweg Maatschappij, with Deli as largest shareholder and Cremer as its first director. The railway network was successively enlarged extending over more than 400 kilometres by 1920 and about 550 kilometres at the end of the colonial period (Weisfelt, 1972: 13). Local brick-yards formed another tangible backward linkage at Deli.

Deli and Billiton both registered an average dividend rate of slightly more than 25 per cent in the early 1920s but then the gap widened as Billiton paid out 70 per cent or more, whereas Deli became a trifle less generous than before. The gap between these two prevailed, albeit of more modest proportions, throughout the 1930s. This was a matter of different priorities and varying time horizons. The unique circumstances of its operations, including the public interest, probably induced Billiton to adopt a more short-term perspective than what would otherwise have been the case. Deli consistently stressed expansion on a solid foundation above short-run gains. Both firms obviously wished to stay in business as long as possible but the overriding concern at Billiton was the renewal of the concession whereas market control and diversification played a more prominent part on agendas at Deli.

The high profit levels of these two companies were allegedly associated with greater risks and higher costs compared to those in setting up business in Java. It is of course hazardous to generalize too much from such a limited number of cases but it does remain a fact that substantial investments in physical infrastructure were required before the tobacco estates at Deli or the tin mines of Billiton could start deliveries. Such facilities formed backward linkages in the sense that they were indispensable to production. Some had a lasting impact on the local economic environment. The potentially most interesting forward linkage was tin smelting in Billiton but, as we saw, this never got off the ground. There was little potential for forward linkages in Deli.

5. Conclusion

A national economy emerged in the Indonesian archipelago during the late colonial period. It was a process of integration towards a higher degree of internal cohesion complementing and reinforcing the simultaneous process of the integration of colonial Indonesia into the world economy. Private capital, especially Dutch firms, played a vital part in this process by investing in the expansion of productive capacity and the building up of a network of common corporate interest. The outlook of private Dutch firms was twofold, combining a strong orientation towards the economy of the metropolitan mother-country with a high degree of local entrenchment in the colony. This double outlook was reflected in the variety of business strategies actually pursued by the private Western firms operating in the colonial context.

A great deal of emphasis was placed on continuity which is only logical in a situation where the overseas investor expects the colonial regime to provide an attractive investment climate for years to come. Continuity was attained by further developing existing strongholds and at times also by diversifying production. Examples from the literature include the chief transporter, KPM, with its elaborate maritime network and the estate concern HVA with its policy of continuous adaptation. A case study cited here, Michiels-Arnold in West Java, kept experimenting with new crops and took great pains to pay out dividends under virtually any circumstances.

Expansion was obviously at the forefront of managers' minds during the initial phase of operations in most firms but some also continued to stress expansion at a far later stage. This holds true for the OBM coal mine when profitable operations finally proved possible. It applies to Deli with its urge to gain an oligopolistic control of supply in the East Sumatra tobacco industry. The primacy of an expansive strategy probably also applies to the leading oil company, BPM, but the data available do not allow us to elaborate on this.

A strategy of quick gains is likely to stress the financial stakes of shareholders rather than the position of the firm within a local setting or a long life-cycle. The literature offers the example of the Salida silver mine with its power struggles at the metropolitan level. Two of the case studies presented here, Wonolangan and Billiton, also fit this pattern, although for very different reasons. At Wonolangan the time horizon was shortened by the eventual collapse of the sugar industry at large, whereas at Billiton the preoccupation with the renewal of concessionary rights bordered on the obsessive.

A survival strategy was generally adopted by firms that had started out a bit too optimistically or had grown too fast, *e.g.* OBM or the 'Poeloe Laoet' coal mine in early days or the copra giant 'Insulinde' as bankruptcy loamed. In a very literal sense such a strategy was also pursued by Billiton in its frenetic attempts to secure its tin concession for future exploitation.

Business strategies, whether overt or implicit, had consequences for the final impact of the operations of the Western firm on local economic development. The major structural effects consisted of backward linkages, usually improvements in physical infrastructure, whereas there was a dearth of forward linkages. The most elaborate backward linkages of this kind were found at Wonolangan, Billiton and Deli. Continuous expansion and quick gains both presupposed substantial outlays on infrastructure.

Pioneering assumed different forms in Java and the Outer Islands. Outside Java larger investments were required but profits were allegedly higher. This dichotomy is by and large corroborated by the evidence in our four case studies: Deli and Billiton outside Java versus Michiels-Arnold and Wonolangan in Java. The outflow of profits from the former two was more impressive but so were outlays on local infrastructure. However, the limited absorption of profits on the spot and the absence of forward linkages of any significance do suggest that such enterprises remained enclaves of Western export production with negligible spill-over effects on local supply and demand. Business strategies geared towards expansion and quick gains rather than continuity did not offer a guarantee for lasting benefits accruing to host regions in late colonial Indonesia.

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