

How the Environment of Hong Kong and the ASEAN Contributed to Jardine, Matheson & Company's External Organization for Opportunity Exploitation and Risk Reduction

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Abstract: Strategic management in Jardine, Matheson derived from the special business, social and political environment into which the firm entered and the firm's concentration on building a pattern of relationships within and outside the business - an external organization in the Marshallian sense. This external organization helped the firm to foster the flow of information, the knowledge with which to interpret it, the ability to influence others and the reputation to attract and retain trading partners.

Volatility, government policy shifts, chance --- unpredictable elements in the life of any business --- are familiar to the major Asian conglomerates. Some, like Swire Pacific, Hutchison Whampoa, Wheelock and Jardine, Matheson & Company, are the descendants of the old agency houses and share the opprobrium of a colonial, or worse, an opium past.

In Hong Kong and on the mainland, new business enterprises have emerged or new configurations led by Chinese businessmen --- like Cheung Kong's Li Kashing --- that are challenging the old houses for investor dollars because they afford leading edge development prospects without the corporate center, asset baggage, and history.

Jardine, Matheson & Company is the oldest of the firms and the focus of this study. From 1832 and for a hundred years, the firm's business was risk broking for buyers and sellers of goods from/to Europe and Asia ---- and based entirely on commissions. The firm extracted commissions --- as much as 45 cents on every dollar --- for services that included sales, returns, cost and freight, guarantees of bills, ship's disbursement, insurance, arranging insurance, chartering ships, receiving inbound freight, obtaining outbound freight, setting insurance losses, negotiating bills of exchange, arbitration of debts, debt settlement, managing estates, executors of estates, transshipping goods. Jardine, Matheson could charge a commission on sixteen separate "agency" services because the business was very risky and the participants in the business not knowledgeable enough themselves, and lacking the clout of a big operator like Jardine, Matheson, preferred to have that risk managed by a firm with market knowledge, of reputation, influence and strong financial management skills.

Today, Jardine Matheson is a multinational company, with a range of activities encompassing financial services, supermarkets, consumer marketing, engineering and construction, motor trading, property and hotels. Jardine's insurance, motors, supermarket and hotel businesses are market leaders across Asia.

Because their business lines, customers or markets have evolved in different directions depending on their capabilities, Jardine, Matheson competes with other Hong Kong firms like Swire and Hutchison and CITIC, among others, for investment capital, coalition participation and influence in the region, but these firms are more often collaborators than competitors within the ASEAN.

Since the 1960s, the accelerated globalization of economic activities and global competition, have made it impossible for firms like these to rely on their own resources to survive the tyranny of global competition. They must pull together other firms, both competitors or collaborators, to help them ride out unpredictable storms in the global economy, share knowledge and reduce business risk. This has taken the form of external corporate networks based on both equity and non-equity arrangements.

Indeed, Jardine Matheson's diversification in the mid-1970s into very different products and services leveraged the company's existing capabilities in finance, insurance, trading and shipping, marketing and distribution --- to create of internal and external corporate networks representing different stages of the same production chain --- as well as different production chains altogether. Jardine Matheson's managers experienced new learning, a source of immediate or potential competitive advantage, and applicable to future growth.

Actually, not at all a new phenomenon, the concept of intra- and inter-firm networks to reduce risk began as early as the 19th century with the Canton Insurance company, headed in alternate years by Jardine, Matheson and by Dent & Company, that set insurance rates for shippers; the Shipping Conferences, established by John Samuel Swire, to which Butterfield and Swire and Jardine Matheson (among others) were parties, which established guaranteed routes and rates for shippers, and the British and Chinese Corporation headed by Jardine Matheson and Butterfield and Swire to raise and manage Chinese railroad funds.

Relationships and network building are embedded in the social and economic relations of ASEAN firms, where culture, cooperation and trust are essential to business operations under uncertainty.

In fact, it is the quality and distinctiveness of these intra-firm and inter-firm contracts and relationships that create competitive advantage for the firm within its market, according to a resource based interpretation of the growth of firms.

This paper is based on a dissertation whose primary aim is to analyze the strategic management Jardine, Matheson & Company, using resource-based theory as the principal interpretive framework. The dissertation covers two periods, the development of Jardine, Matheson's network of relationships and capabilities from 1810 to 1906, and the transnational expansion of Jardine, Matheson's businesses and markets from 1961 to the present.

The interpretation of strategic management in Jardine, Matheson & Company answers some critical questions important to all firms

- How and why did Jardine, Matheson's founders and managers develop particular resources and services?
- What internal (including the firm and its agents) and external (including competition, new entrants, buyers and suppliers) factors were responsible for their choices?
- The firm's choices met with some notable successes --- and some notable failures. How are the firm's failures explained?

- At the firm's origin --- and again after WW2 and the Korean War --- there were as yet no markets in Asia, in the sense of market institutions. What role did the firm play in the development of markets?
- What was the organizational structure of the firm, including both internal and external, that allowed for consistent business routines and promoted organizational learning?
- What were the environmental factors (including government, supply/demand, social policy and other macroeconomic issues) that contributed to the firm's choice of resources and services?
- How did Jardine, Matheson promote managerial initiative while curbing opportunism?
- How did Jardine, Matheson raise funds for growth, given managerial initiative/opportunism and governance issues?

The current paper is focused on the period 1961 to 1996 and deals with a more limited set of these questions: What are the internal and external factors (including environmental factors) that contributed to the firm's choice of resources and services and what was organizational structure of the firm that allowed for consistency and learning?

The Literature: Penrose, Marshall and the Growth of the Firm

The receding managerial limit, the evolutionary growth of knowledge, the importance of enterprise and entrepreneurial vision, the respective importance of the firm and the environment, the possibility of failure and the persistence of uncertainty and risk, and the collective action of firms to reduce risk and uncertainty ---- as Edith Penrose herself acknowledged in the introduction to the 1995 re-issue of her *Theory of the Growth of the Firm* --- are issues that been important both to economics and to strategic management .

In a resource-based interpretation, a firm's choice of resources and services for development and growth would be explained by the business, social and political environment of the firm as well as by the firm's concentration on building up a pattern of relationships both inside and outside the business. These relationships would foster the flow of information, the knowledge with which to interpret it, the ability to influence others and the reputation to attract and retain trading partners.

While Edith Penrose acknowledges the firm's conjectural ability to shape its "image" of the environment,¹ she added: "There can be no question that for any particular firm the environment 'determines' its opportunities, for it must take its resources as given ... and must look to the opportunities it can find for using them for the source of its power to grow. Whether we should treat the resources of the firm or its environment as the more important factor explaining growth, depends on the question we ask: if we want to explain why some firms see the environment differently, why some grow and some do not...or why the environment is different for every firm, we must take the 'resources' approach; if we want to explain why a particular firm or group of firms with specified resources grows in the way it does, we must examine the opportunities for the use of those resources." ²

Alfred Marshall provides insights into how a firm might simultaneously build a pattern of relationships and shape its environment by coordinating its activities with other firms through an "external organization," that is to say a network of social, technical and commercial arrangements that link a business with its customers, suppliers and rivals.

In discussing the nature of production in 'The Principles' Marshall differentiated the benefits of production accruing to the individual large firm --- internal economies of scale --- and those arising to the industry as a whole --- external economies: "We may divide the economies arising from an increase in the scale of production of any kind of goods, into two classes - firstly, those dependent on the general development of the industry; and, secondly, those dependent on the resources of the individual houses of business engaged in it, on their organization and the efficiency of their management. We may call the former external economies, and the latter internal economies." ³

Marshall introduces the idea of "localization" (along with specialization --- which means the production process can be broken up into smaller stages). According to Marshall, external economies ... "can often be secured by the

¹ Edith Penrose, *Ibid.* p. 215. The word "image" derives from Kenneth Boulding, *The Image* (Ann Arbor, Michigan: University of Michigan Press, 1956).

² Edith Penrose, *Ibid.*, p. 217.

³ A. Marshall, *Ibid.* p. 221.

concentration of many small businesses of similar character in particular localities: or as is commonly said, by the localization of industry.”⁴

In effect, this localization of industry can be an alternative to a larger size for the individual enterprise. As Marshall notes: "For instance in cotton spinning, and calico weaving, a comparatively small factory will hold its own and give constant employment to the best known machines for every process: so that a larger factory is only several parallel smaller factories under one roof; and indeed some cotton spinners, when enlarging their works, think it best to add a weaving department." ⁵

This localization of industry, coupled with the already identified specialization, gave rise to the notion of industrial districts. Marshall comments: "The largest industries, and especially those that need massive plant, are located increasingly in industrial districts."⁶ but small firms providing inputs and specialist finishing can also reap advantages in terms of external economies from being located in industrial districts: ---...." in large measure dispensed with the necessity of any complex arrangements in each individual business, since the external economies, which even a small business thus obtained, were generally far more important to it than those which the largest business in the world could obtain by its own efforts" ⁷

In addition to external economies arising out of production, Marshall identified benefits arising out of agglomerations, such as skilled labor, capital and infrastructure. "Meanwhile the trading functions of the city developed. Warehouses for the products of the district took the place of factories; shops for the accommodation of the district were enlarged; and banks and mercantile houses of all kinds became prominent.”⁸

Marshall refers to an intangible "industrial atmosphere" which he describes thus: "When an industry has thus chosen a locality for itself, it is likely to stay there long: so great are the advantages which people following the same skilled trade get from neighborhood to one another. The mysteries of the trade become no mysteries; but are as it were in the air, and children learn many of them unconsciously"⁹ The establishment of an industrial atmosphere takes on the appearance of an extended or external organization where skills are being constantly developed and interchanged, ideas are exchanged and innovation occurs within the district. In such an atmosphere, "if one man starts a new idea, it is taken up by others and combined with suggestions of their own; and thus it becomes a source of further ideas."¹⁰

Marshall's "industrial atmosphere" leads to a long-term commitment of an industry to a particular district, like Marshall's examples of the cutlery trade Sheffield and Solingen..."which yield gratis to the manufacturers of cutlery great advantages, that are not easily to be had elsewhere: and an atmosphere cannot be moved."¹¹ Once industrial districts become established they are relatively stable productive systems..."an established center of specialized skill, unless dominated by a guild or trade-union of an exceptionally obstructive character, is generally in a position to

⁴ A. Marshall, *Principles*, Ibid. p. 221..

⁵ A. Marshall, *Principles*, p. 235.

⁶ A. Marshall, *Industry and Trade* (London: Macmillan, 1932), p. 285.

⁷ A. Marshall, *Industry and Trade*, p 300.

⁸ A. Marshall, *Industry and Trade*, p. 285.

⁹ A. Marshall, *Principles*, p. 225.

¹⁰ A. Marshall, *Principles*, p. 225.

turn to account quickly any new departure affecting its work; and if the change comes gradually, there is no particular time at which strong incitement is offered to open up the industry elsewhere."¹²

Marshall's external organization, "industrial district" and "industrial atmosphere" are rich sources of information about the collaborative pursuit of knowledge by firms. While Penrose did not have much to say about external networks, she did advance that the spread of interfirm networking has been stimulated by the growth of global businesses the scale of operation of which is largely independent of national boundaries, especially in technological fields. Strategic alliances are formed between firms in related areas around the world. Formal relations among such firms are necessary and rational, and may advance the competitive power of each of them. Penrose used the network as an example of administrative coordination. Penrose herself credits D'Cruz and Rugman for their definition of a network as a "governance structure for organizing exchange through cooperative, non-equity relationships among firms and non-business institutions"¹³ and Gomes-Casseres'¹⁴ for a definition of a network as "groups of companies joined together in a larger overarching relationship each company fulfilling a specific role within the group."

In a resource-based view, the firm creates an 'architecture' or 'administrative framework' for learning and collaboration. This framework includes both interorganizational linkages and internal processes for learning, the development of capabilities, the exploitation of productive opportunities, and the development of consistent routines important for trustworthiness, consistent patterns of behavior and effective forms of governance.

The ideas central to the 'architecture' of the firm derive from Adam Smith and Alfred Marshall. Reinterpreted by Penrose in *The Theory of the Growth of the Firm*, the division of labor both within and between firms, leads to the development of skills and the perception of possibilities, while firms within a similar line of business will develop somewhat different skills and perceptions. Firms are learning organizations, continually changing their organization to align their increasing knowledge with their productive opportunity.¹⁵

Marshall again adds greater depth to his exploration of firm behavior. The continual interaction of buyers, sellers and producers resulted in a Marshallian "industrial atmosphere" and localization in an "industrial district." Marshall coined the term "constructive cooperation" to identify one of the factors which gave industrial districts a positive competitive edge: Constructive cooperation enables even "moderate sized" businesses to compete with much larger competitors "provided these qualities are united with a frank willingness to learn from others; and to cooperate genially with others in matters in which unfettered association has large opportunities"¹⁶ The economies which accrue to medium sized businesses, enabling them to compete with larger competitors, arise out of the evolution of new organizations which are directly the result of the development of constructive cooperation, arising itself out of

¹¹ A. Marshall, *Industry and Trade*, p. 284.

¹² A. Marshall, *Industry and Trade*, p. 287.

¹³ The reference is to J. R. D'Cruz and A. Rugman, "Business Network Theory and the Canadian Industry," [International Business Review](#), Vol. 3, Number 4, p. 276.

¹⁴ The reference is to B. Gomes-Casseres, "Group versus Group: How Alliance Networks Compete," [Harvard Business Review](#), July-August 1994, p. 4.

¹⁵ Brian J. Loasby, *The Significance of Penrose's Theory*, *Ibid.* p.38.

¹⁶ A. Marshall, *Industry and Trade*, p. 594.

the constant interaction within the industrial districts. Marshall cites such examples as 'The British Pottery Manufacturers' Association' which had among its purposes "To deal with the quality, supply, purchase, and control of raw materials and stores, where desirable, in the interests of the members; to deal with all questions relative to cost and conditions of transport; to consider means of facilitating the extension of export trade; to bring about closer cooperation with the technical arts, and designs sections of the pottery schools; to promote general propaganda, and to undertake advertising in connection with the industry; to consider the best means of encouraging and utilizing improvements, inventions, and patents for the general good and advancement of the industry; to deal with all matters connected with more economical production, including costing; to watch national and local legislation affecting the industry ...Experts are to be appointed, and assistance given to members in overcoming the technical difficulties which constantly arise in so complex an industry; and the Federation has power to purchase, work, and exploit any patents, secret processes, or other improvements in the general interests of the members." ¹⁷

The constant interaction of the actors within Marshall's industrial districts leads to innovation and the sharing of skilled personnel and machinery, and depends on the development of trusting relationships and close community relations within the district.

The trust, which underlies the "constructive cooperation", develops through relationships which evolve through interaction within markets, as the following citation makes clear. "Everyone buys, and nearly every producer sells, to some extent in a 'general' market, in which he is on about the same footing with others around him. But nearly everyone has also some 'particular' markets; that is, some people or groups of people with whom he is in somewhat close touch: mutual knowledge and trust lead him to approach them, and them to approach him, in preference to strangers."¹⁸

Finally, whatever the plans and goals of the organization, in a resource-based interpretation, the firm and its managers may misunderstand their capabilities, their value to the market and the conditions impacting their use in the market. Brian Loasby's interpretation of "Penrose's most significant analytical innovation ...the distinction between resources and inputs into production, which she called productive services," inserts fallible conjecture into the firm's understanding of its capabilities, its environment and its opportunities.¹⁹ There is no absolute logic that can be brought to bear to exempt the firm from failures of understanding. All firms exist in an uncertain world, so actual conditions in the world itself --- not only the understanding of those conditions --- can impact the success or failure of strategy. Loasby compares Penrose with Marshall, citing Marshall's line that "constructive speculation is inherent in nearly every business decision:" "Any firm may fail...and all firms experience failure."²⁰

The sections shed light on the internal and external factors responsible for Jardine, Matheson's resource and services choices and provide evidence to support the development by Jardine, Matheson & Company of a Marshallian external organization to share information, exploit opportunities and reduce risk; of constructive cooperation

¹⁷ A. Marshall, *Industry and Trade*, p.604.

¹⁸ A. Marshall, *Industry and Trade*, p. 182.

¹⁹ Brian J. Loasby, "Organizations as Interpretive Systems," DRUID 2000 Summer Conference, June 2000.

between Jardine, Matheson, its associated firms and its competitors; and the development of industrial districts in Hong Kong and the ASEAN.

²⁰ Brian J. Loasby, *Ibid.* p.11.

External and Internal Factors Influencing Jardine, Matheson's Resource and Services Choices

Since its founding in 1832, and well into the twentieth century, foreign trade continued to give Jardine, Matheson a role in the national agenda of China and its trading partners in the Pacific. Jardine's bread and butter business was importing into the Far East hundreds of lines of British, Canadian and American consumer and capital goods, from Ovaltine to Westinghouse transformers. Jardine, Matheson acted as principal, consultant or agent in trading with the Chinese. As an agent for British and Australian companies, it sold to the Chinese livestock, wool, cotton, hides, aircraft, rolling mills, machine tools and complete chemical plants. As a principal, Jardine bought and resold commodities such as soy beans, broad beans vegetable oils, hog bristles and furs,²¹ as well as tea, rice, gold and diamonds. As the company had done from the beginning of its history, Jardine, Matheson provided financing, insurance shipping as well as trading services to its clients --- absorbing for its clients the risk of doing business with China and the Far East --- which could be dangerous and highly volatile:

- In the summer of 1937 Japanese forces attacked China in an attempt to expand Japanese commercial and strategic interests to the Asian mainland. A number of Jardine, Matheson's management were taken prisoner as alleged agents of European imperialism. The company's textile factories were looted and the Chinese staff were dispersed.
- In December 1941, Japanese forces invaded British colonies in Asia, including Hong Kong. Jardine, Matheson officials in the colony were again imprisoned. When the war ended in 1945, Jardine taipan John Keswick, who had managed to escape to Ceylon, returned to Hong Kong to rebuild the small airline, the textile mills, the real estate, wharves, brewery and cold storage facilities which were the firm's physical assets.
- In 1949, after four years of civil war, Communist forces seized control of the mainland. Jardine, Matheson attempted to work with the Communists.
- By 1950, new government policies increased taxes, restricted currency exchanges and banned layoffs. Ewo Brewery in Shanghai was forced to reduce its prices by 17 percent, despite increases in raw materials, and to remain open at a \$4 million annual loss. Companies based in Hong Kong were bound to observe a British trade embargo against China because of the Korean War. Keswick was arrested when he tried to leave Shanghai.
- Compelled to close its operations in China, Jardine, Matheson entered into negotiations with the government and, in 1954, wrote off \$20 million in losses. While little of the physical assets remained,

²¹ Allen T Demaree, "The Old China Hands Who Know How to Live with the New Asia," *Fortune* (November 1971), p. 133.

the skills of Jardine, Matheson's managers were intact --- although removed to Matheson & Company, London.

- With trade *in China* closed, Jardine, Matheson continued to trade *with China*, although this trade had slowed to a trickle of rice. Officials of the Chinese trading corporations whom Jardine, Matheson knew well disappeared from their jobs for "re-education."

To survive and grow in the midst of adversity in China and uncertainty in Hong Kong, the firm investigated new Asian markets, both for itself as principal, and for the British, Canadian and American firms for whom the firm acted as agent. And to do so it needed an infusion of cash.

Jardine, Matheson & Company was one hundred twenty-nine years old when it went public in 1961, abandoning the partnership system under which the firm had been administered since 1832. The listing of the company's stock on the Hong Kong Stock Exchange marked the beginning of a search for expansion and diversification fueled by investor capital, which was cheaper than bank loans during the period.

While committed to building its presence in Hong Kong, the firm was not alone in its pursuit of other Asian markets at this time. World trade had begun to exceed the growth of world production during the mid-1950s, and by the early 1960s firms sought to grow by direct foreign investment in the developing countries of Japan, Korea, Taiwan, Singapore and Malaysia across a wide range of industries by exploiting knowledge and expertise gained in one Pacific country's markets in other countries within the region.²²:

Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand--- the original member states of the Association of South East Asian Nations (ASEAN) experienced dramatic growth in real GDP growth, beginning in between 1965-1985 rose 4.8% in Indonesia; 4.4% in Malaysia; 2.3% in Philippines; 7.6% in Singapore and 4.0% in Thailand, largely from corporate foreign direct investment, a significant portion of which came from Hong Kong firms.²³

Between 1967 and 1993, Japan and Hong Kong were the two largest investors in Indonesia, measured in terms of foreign direct investment. And in terms of *cumulative* foreign direct investment, Hong Kong has been among the top three largest investors in Indonesia, the Philippines and Thailand. Between 1967 and 1997, Hong Kong invested some US\$14.6 billion in Indonesia; in Malaysia, Hong Kong's paid-up capital in approved foreign direct investment projects in the manufacturing sector was US\$256 million (or 4.2% of the total). In the Philippines, Hong Kong firms invested up to US\$233 million (or 6.3% of the total) in cumulative foreign equity investment between 1965 and 1991. In Singapore, Hong Kong's cumulative foreign equity investment between 1981 and 1994 was US\$3.3 billion or 2.5% of the total.

Hong Kong firms looked to ASEAN countries for specific sectoral advantages: Indonesia and the Philippines offered greater competitiveness in resource-rich primary and labor intensive manufacturing industries. Malaysia and Thailand were more competitive in manufacturing industries that required higher technological and capital inputs.

²² in the Asia Pacific: Competition or Complementarity?" *Business & the Contemporary World* (Spring, 1993), p. 68. Edward Chen, "Economic Restructuring and Industrial Development

In cumulative terms, from 1967 to 1993, some 70% of Hong Kong's foreign direct investment in Indonesia concentrated mainly in six industries --- textiles (US\$838 million); office building (US\$792 million); paper (US\$658 million); hotels and restaurants (US\$606 million), the chemical industry (US\$604) and the basic metal industry (US\$596 million). The top four manufacturing industries are related to resources abundant in Indonesia . For the textile industry, the availability of labor is an important factor, whereas the availability of natural resources is crucial to the chemical and basic metal industries.

In Malaysia, between the years 1975 to 1994, the majority of Hong Kong's foreign direct investment went into five industries: textiles, chemicals, electronics, food manufacturing and wood products. These five industries accounted for 94% of total Hong Kong foreign direct investment in 1975 and 87% in 1994. The textile, electronics and wood industries were the top employers in Malaysia --- some 35,000 were employed by Hong Kong firms, the largest employer in that industry.

In the Philippines, agro-industries, mining/ mineral and chemical industries attracted most of the Hong Kong foreign direct investment from 1972 to 1987. Since 1982, service sector has absorbed 51% of Hong Kong's total foreign direct investment.

As early as 1963, Hong Kong's foreign direct investment in Singapore's manufacturing sector represented 9% of total manufacturing foreign direct investment.. Since 1985, the leading sector for Hong Kong's foreign direct investment has been financial and business services.

In 1970, Hong Kong's foreign direct investment in Thailand was concentrated in three sectors --- trade, industry and construction, representing 87% of Hong Kong's total foreign direct investment. In 1980, the commercial and services sectors reemerged as the leading sectors for foreign direct investment. The five major industries or sectors were: financial institutions; trade; services; housing; and hotels. In the manufacturing sector, electrical appliances and chemicals were the leading industries for Hong Kong's foreign direct investment in 1980. From 1980-1995, the service sector dominated, at some 63% of total foreign direct investment, with financial institutions and real estate the two largest recipients of foreign direct investment.

Jardine, Matheson's desire to broaden its outreach in Asia and reduce its dependency on Hong Kong and China is clear from a market-by-market review of the firm's investments and acquisitions. At the same time, it is obvious from the breadth of Hong Kong investments and acquisitions (some 250) that Jardine, Matheson wanted to sustain its competitive advantage in Hong Kong, where GDP was rising 9.7% per year, interest rates were low and the island was emerging as an important regional finance center.

The embedded chart shows that Singapore, Malaysia, Philippines, Japan, Thailand and Indonesia --- and even more prominently South Africa --- were major markets for Jardine, Matheson's investment, particularly in manufacturing and services. Some 75% of Jardine, Matheson's acquisitions were made in Asia, including 40% in Hong Kong or China and 25% in Southeast Asia.

²³ Henry Wai-Chung Yeung, *Transnational Corporation and Business Networks* (London: Routledge), pp. 18-19 GDP growth in Hong Kong and ASEAN; p. 86 Hong Kong FDI flows to ASEAN.

Chart 1: Geographic Spread of Manufacturing, Service and Natural Resources Acquisitions and Investments – 1961-1984

REGION	MANUFACTURING	SERVICES	RESOURCES
Africa	7	119	4
Hong Kong/China	24	226	
Singapore	18	46	5
Malaysia	9	35	3
Phillipines	16	17	
Europe		120	
US	8	46	7
North East Asia		14	1
Other	5	107	19
Total	87	730	39

By 1974, Jardine, Matheson had made significant investments in Singapore in ship owning, container freight stations, road transportation, agricultural industry manufacturing, textiles, scientific equipment, medical and hospital supplies. The firm invested in oil exploration in 1974 and bought three Singaporean companies engaged in oil industry supplies manufacturing and servicing. In 1975, Jardine, Matheson acquired two firms to manage its oil interests and service oil rigs. Also in 1975, the firm brought in Jardine Fleming, Schindler Elevators, Rentacolor and a Hongkong Land-type property company, Singapore Land. Jardine acquired Promet Berhad, a company that undertook civil engineering and construction, steel fabrication and marine transportation.

Jardine, Matheson entered the Philippines with the acquisition of two life insurance companies and holdings in three sugar milling companies, an air conditioning and TV manufacturing company, a joint venture with Sherwin Williams to manufacture industrial machinery and the acquisition of a machinery distribution company. In 1975 Jardine, Matheson established Jardine, Davies, a holding company with Theo. Davies, long associated with sugar plantations in the East Indies, to manage a portfolio of food and kindred products, timber trading, clothing and machine tools manufacture. Ship-building and repair was added in the same year. Financial services was added in 1978.

Jardine entered South Africa in 1974 with the acquisition of Holiday Inn franchise licenses and local companies engaged in clothing, luggage and outdoor equipment manufacture. In 1975, Jardine, Matheson acquired 53% of Rennie's, a 165 year old trading conglomerate, based in Johannesburg with interests in shipping, ship owning and tourism. The association became extremely profitable, very quickly, with the subsidiary contributing 12% to parent company profits by the end of the decade and operating in eight African nations. From 34 acquisitions by the end of 1977, the firm reduced its holding to 23 in 1979 and had sold off all of its African holdings by 1980.

In 1972, 82% of the firm's profits derived from Hong Kong, as well as 78% of its equity. In the same year, Northeast Asia (largely Japan) contributed 7% to profits and represented 2% of firm equity. Southeast Asia (largely

Singapore, Indonesia, Malaysia and the Philippines) contributed 3% to profits and represented 3% to firm equity. But by 1978, Hong Kong was contributing 45% to profits and represented only 37% of equity. Japan was contributing 12% to profits and represented 5% of equity; Singapore, Indonesia, Malaysia and the Philippines were contributing 6% to profits and 12% of equity.

Indeed, Jardine, Matheson had an extraordinary impact on the national economies in which it invested so heavily. With Hong Kong representing 37% of turnover in 1977, Jardine, Matheson represented 3.9% of Hong Kong's GDP. With Singapore, Indonesia, Malaysia and the Philippines representing 4% of turnover in 1977, Jardine, Matheson represented 2% of their combined GDP. South Africa represented 5% of the firm's turnover in 1977 and 2% of the nation's GDP.

During the period examined in this paper (1961-1996) Swire and Hutchison Whampoa never took the multi-market approach of Jardine, Matheson, making it part of their strategy to focus on Hong Kong and China. Only in the mid 1970s, when Swire was issuing shares, did Swire's contribution to Hong Kong GDP begin to rise to 1.9% at the end of the decade. By 1984, Swire had eclipsed Jardine, Matheson's contribution to the colony. By 1986 Hutchison Whampoa was contributing 2.1% to Hong Kong GDP.

Building An External Organization --- The Relationship Between Resources and Services

From 1961 to 1996, Jardine, Matheson made approximately 850 acquisitions or investments at 20% of book value or more in very diverse businesses across the Pacific, exploiting sectoral opportunities in the ASEAN where these existed and supporting the continued development of Hong Kong as an industrial district.

A resource-based interpretation argues that a firm grows by building on its resources and capabilities, transforming its physical and skill resources to create new products and markets. Firms might use equity, debt and trading relationships to extend their resource and capabilities outreach, building a network that extends well outside the firm --- an external organization, as it were, governed by long-term relationships with well-known expectations and financial rewards, virtually frictionless contracts.

Looking for Patterns - SIC Code Analysis; Geographic Spread

To find a diversification pattern --- or pathways -- and ultimately understand the relationships, if any, between associated companies, their customers and even their competitors, this study used as its starting point an SIC-based methodology. The standard industrial classification system (SIC) has been widely adopted as the standard coding system used to define and analyze industry structure. With SIC code analysis, materials, processes, logistics and end-uses emerge as connections between businesses and related skills.

The first two digits of the SIC code system called Major Group are used to divide economic activity into the following ten major divisions. The third digit subdivides activity into a more specific industry group, and the fourth digit defines a particular industry. The four digit SIC code is assigned on the basis of what the business does.

For example:

Major Group	Wholesale Trade-Durable Goods	50
Industry Group	Machine Equipment and Supplies	508
Industry	Industrial Machinery and Equipment	5084

For the dissertation, all of Jardine, Matheson's acquisitions and investments from 1961 to 1996 were charted along with country of operations, year acquired, year divested, percent owned, line of business and primary four digit SIC code.

Periods of Differentiated Growth

The first pattern identified was the number of investments and divestments per major group per year, leading to the identification of four growth periods between 1961 and 1996. The first was a period of sequential growth to 1971 during which time the firm used its trading, shipping, finance and insurance core businesses to move into new markets, establish a representative office, a holding company, often by investing in or acquiring a local trading business. For purposes of classification, I called this period "Stepping Stones."

The second period from 1972-1977 was characterized by very aggressive growth pursued simultaneously along two paths. The first path was a continuation of its Stepping Stones approach into new geographic markets. The second path involved building chains of related businesses or clusters within specific industries and across geographies. A total of 427 acquisitions or investments were made (and 93 divestitures). Some 65.5% of acquisitions during the period were in finance, insurance and real estate; transportation; and trading/wholesaling) to primary goods, machine tools and other manufacturing interests as well as retail sales (35.5%, including 17% manufacturing, 12.6% in retail, 2% primary goods). Again, for purposes of classification, I called this period "Exploit and Develop," because the firm was building, extending existing capabilities to new markets and acquiring new capabilities that

Beginning in 1978 through 1984, the firm began to rationalize products and markets, building a more focused portfolio that could be replicated in each market. A total of 223 acquisitions were made, compared with 336 divestitures. Of acquisitions, 75% were in core businesses (50% in finance, insurance and real estate; 20% in transportation and 5% in wholesaling). Of divestitures, 74% were in core businesses, 12% in manufacturing, and 10% in services. I classified this third period "Harvest and Divest," because one is seeing here not only the exit from businesses that seem to make less sense to the firm in terms of where they see the economy headed, but the spin off of successful businesses to new owners, like Swire, Hutchison and Old Mutual/Safren.

From 1984-1997, Jardine, Matheson's business interests were reduced. Growth continued, but far less visibly, through the diversification strategies of subsidiary and associated companies. The firm continues on this track. During the period, 67% of acquisitions and 70% of divestitures were in financial, insurance and real estate; 26% of acquisitions were in retail and services. I classified this period "Focus on Distinctive Capabilities," because the firm's intention was limiting investment to a few core businesses, while the experimentation and innovation is taking pace at the level of the firm's associated companies.

Relationships between Resources, Services

Looking at three digit SIC codes represented among Jardine, Matheson's investments -- that is, major industry groups -- and aligning these with four digit SIC codes, which reflect actual industry, and plotting these by stage in the value chain ---primary goods or resources; manufacturing; services --- and by geography, shows the interdependence of Jardine, Matheson's acquired companies within product systems for materials and metals (the steel product system), forest products, transportation, textiles, oil and gas and sugar, producing what might be called "Industrial Clusters."

The analysis of these "Industrial Clusters" revealed that many firms acquired by Jardine, Matheson between 1972-1977 were steel dependent, including oil refining, shore drilling and offshore services, construction and elevator installation, sugar milling, sugar harvesting equipment manufacture, ship building and repair, steel foundry, piping and aluminum components, machine parts, agricultural equipment manufacturing, air conditioning manufacturing, electricity and supply, motor distribution, steel fabrication, hydraulic components, crane and winch trading, industrial equipment, oil equipment and services.

Further, this analysis shows how the separate product systems actually related to each other and to Jardine, Matheson's own historical capabilities.

For example, the steel product system supplied flexible steel for cladding and decking to the transportation (shipbuilding) product system; machinery to both oil and gas as well as sugar product systems. The steel product system also supplied piping and aluminum components to the oil and gas product system, and the transportation product system supplied shotblasting and marine engineering services to that product system. A dramatic example of product system interdependencies was the impact of the energy price crisis of 1973 on shipbuilding and --- domino like --- on the steel industry. The energy crisis hit the automobile industry and the housing industry in the industrialized West (US, UK, Europe) and in Japan; demand for steel slumped. But in the newly industrializing nations of Australia, Malaysia, Philippines, Singapore and South Africa demand for steel produced and used in the same region accelerated with GDP growth --- and Jardine, Matheson was there with the capabilities to take advantage of a spectacular opportunity.

While Jardine, Matheson was largely involved in matching buyers and sellers of diverse products, in performing this core activity, the firm was entrenched in a number of key industries, not on a one time, ad hoc basis, but on a recurring basis and at very different stages of the value chain. Relying on its broad architecture, its relational contracts, Jardine, Matheson would purchase raw materials, assemble them, coordinate their flow from firm to firm, through the production and distribution chain, using its own vessels and supporting the effort with its own marketing services. The firm would not only buy and sell the product at various stages, it would arrange the logistics, handle the foreign exchange aspects, documentation, customs clearance and other details.

Financing was another important aspect of Jardine, Matheson's service to client and associated firms. The firm acted as a retailer of loans, borrowing wholesale at preferential rates and reloaning the money to finance the trade. Because of its intimate customer contact and its insurance broking services, Jardine, Matheson had the highest quality credit information on current and prospective clients. The firm's capacity to gather and distribute information was an important commodity.

At each stage, from production to final sale, Jardine, Matheson both provided value --- knowledge, know how --- and extracted value as a buyer or a seller, on its own account or as a broker or shipper, operating on commission and absorbing the risk for companies in the chain. Using 1977 as an example, Jardine, Matheson's value chain for steel offered at least 61 separate points at which the firm could extract value, make a commission as it were, going back to the firm's history in the commission business.

How Jardine, Matheson Extracted Value At Each Stage of the Steel Value Chain

STAGES	BUY OPTIONS	SELL OPTIONS
Iron Ore	Local and international Own account Broker Ship Finance, insure	Local and international Own account Broker Ship Finance, insure
Blast Furnace	Product mix	Product mix

	Contract	Unused Capacity Contract
Steel Ingots	Local or International Own account Broker Contract Ship Finance, insure	Local or International Own account Broker Contract Ship Finance, insure
Manufactures	Local or international Own account Broker Contract Ship Finance, insure	Local or international Own account Broker Contract Ship Finance, insure
Engineering and Construction	Local or international Own account Broker Contract Finance, insure	Local or international Own account Broker Contract Finance, insure

Flexible Strategies

Jardine, Matheson had the flexibility -- and its management the directive -- to scan the environment for any changes and discontinuities that might present new risks and opportunities for the firm's worldwide business interests. Side bets were laid to cover contingencies and to create strategic options that might be exercised in the future. Strategic options are based on an acute understanding of opportunities, how the firm might extract value, and how environmental, external and internal factors might affect the firm's ability to capture that value.

Looking back at the classification scheme used earlier in this section to discuss Jardine, Matheson's growth periods, it is evident that the opportunities that the firm and its managers saw for value capture changed dramatically between 1974 (Exploit and Develop) and 1978 (Harvest and Divest period). The data derive from the firm's Annual Reports: In 1974, the firm made 19 cents of every dollar buying and selling the manufactures of associated firms; 22 cents on transporting goods; 2 cents on financial services. By 1978, the firm was now making 30 cents on every dollar from making and selling manufactures, 29 cents from transportation and 22 cents on financial services to its associated firms. By 1981 this configuration had changed. The firm had divested its manufacturing interests, divested its ship owning interests, and was now building a business concentrating on service delivery. For every dollar of profit generated in 1981, 77 cents were derived from services, versus 53 cents in 1974 and 61 cents in 1979.

Jardine, Matheson's Internal and External Organization ---How It Worked and Why

The ability of a firm like Jardine, Matheson to invest and manage its affairs through joint ventures and acquisitions in multiple locations imposed a challenge to firm governance and resource use and information sharing.

The internal and external organization of Jardine, Matheson & Company has been an important factor underpinning the firm's resilience in the face of external shocks to competitiveness and its propensity to carry out longer-term structural adjustments in response to shifts in competitiveness. Jardine's organization is based on flexible institutional mechanisms for adapting to changes in competitive conditions. Remember: the emphasis is on resilience, not strategic success or sustainable advantage.

Interpersonal networks are the glue that holds together Jardine, Matheson vast geographically dispersed and internally differentiated networks. Given the impossibility of building a fully connected network across all the individuals within the organization, the alternative is a network that relies on having at least a few individuals in each subsidiary who have a wide range of ties, what might be called "social capital" within and across the subsidiaries' boundaries.

Overview of Jardine, Matheson Management

For the dissertation, the actual movements of 200 of Jardine, Matheson's managers were charted from 1972 to 1996 on a spreadsheet. Almost all of Jardine, Matheson's new hires or "cadets" were drawn from Oxford and Cambridge. They undertook a three-year training program and were assigned to senior managers as mentees. But that was only the starting point. To assess the on-the-job development of "social capital" within Jardine, Matheson & Company, I looked at: average tenure, based on notion that individuals with longer tenure will have a greater range of both interdepartmental and inter-subsidiary contacts; time to promotion to associate or director; how managers on a "fast track" were assigned to multiple geographic and functional posts --- and the number of moves made, pursuing the idea that the greater the number of departments an individual has worked in, the larger the range of interdepartmental contacts, and the greater the number of subsidiaries an individual has worked in, the larger the range of inter-subsidiary contacts; extent to which headquarters and subsidiaries were represented on the firm's multiple boards of directors; the process by which investment decisions were made --- top down, bottom up, composition of review councils, etc.; the role of senior executives on government and investment councils --- and their role in decision-making; and the extent of local autonomy and local resource availability.

The Jardine, Matheson & Company Annual Reports 1972-1996 are a rich source of information on management movements. This might not have been the case if the firm were not large and dispersed. It was important for the firm's external contacts to know whom at Jardine, Matheson had decision-making authority. Each annual report included the members of the parent board, regional and Hong Kong boards, and heads of local offices making in possible to see who got promoted, how fast and with what cross-geographic or cross-functional skills.

The findings are interesting: some 40 of Jardine, Matheson managers went on to become members of the parent board. On average, Jardine's managers enjoyed a length of service of 20 years or more. They made an average of 3 cross-functional moves, most often from finance, most often to general management, a regional office. Jardine's managers made on average 3 cross-geographic moves in their career. A senior manager at Jardine (associate director and above) reached board level in 4 years. In any year, two new members were added to the board, and 2 retired. The number of outsiders on the board at any time was 2. The average tenure of board members was 12 years. The percentage of expatriates in board seats was 90% as late as 1996. Experience in key markets and businesses was critical to board appointments. Take for example a few representative executive profiles:

Nigel Rich was a general manager for Finance in the Hong Kong office in 1975. Rich had one-year stints in South Africa and the Philippines prior to his appointment to associate director, Philippines in 1979. In 1981, he moved back to the Hong Kong Chairman's office and in 1982 was put in charge of property and hotels. Rich was appointed an executive director and member of the parent company board in 1983. When Jardine, Matheson created the Asia Pacific Regional Board to validate proposals prior to presentation to the parent company board; Rich was appointed a director of the new board. He became managing director of Jardine, Matheson Holdings in 1988, a position he held until 1992, when Alasdair Morrison replaced him.

Alasdair Morrison was appointed general manager, Jardine Industries in 1975, an umbrella group newly established to provide management oversight to small manufacturing and trading companies. In 1979, he became general manager, Philippines, under Nigel Rich. Morrison was appointed general manager, Europe in 1982 --- and appointed associate director in 1983. He was appointed a director of the company and member of the parent company board in 1984. He became a member of the Asia Pacific Regional Board 1987 and was named to the board of Hongkong Land in the same year. In 1993, Morrison became managing director, Jardine, Matheson Holdings and continues in that position.

Anthony L. Nightingale was appointed general manager, Japan in 1979, a post he held for two years before becoming general manager, Hong Kong in 1981. Nightingale was appointed associate director, Middle East in 1982. In 1987 he was appointed a director of the Asia Pacific Board and, in 1991, appointed director, Jardine Pacific. He became an executive director of the parent company board in 1991 and continues in that role.

Long-term employment, single-firm careers were and remain the norm at Jardine, Matheson & Company.

Beginning in 1992, the practice changed somewhat as Dairy Farm, Cycle & Carriage and Jardine International Motors went through a rapid succession of chief executives. The board of each of these public companies remained essentially the same, while the changing chief executive guard reflected a change in the positioning of these companies.

Despite the exceptions, the 1999 appointment of Percy Weatherall to the position of managing director reinforces the original model: long-term Jardine, Matheson man, born in Dumphries, extensive experience in Hong Kong Land and Dairy Farm before his appointment.

Managing Relationships with Associated and Subsidiary Companies

The relationships among Jardine, Matheson's associated and subsidiary firms involved highly localized networks of dense transactions, creating a stable framework of exchange --- with periodic collective action, as in the case of the Jardine Pacific and Asia Pacific Board activities noted above. Former managing director Jeremy Brown contrasted Jardine's style of governance with that of Hong Kong rival, Hutchison Whampoa: The latter's acquired firms were autonomous; Jardine, Matheson's governance style was midway between Chandler's "visible hand" (formal administration) and Adam Smith's "invisible hand" (autonomously self-regulating): "We imposed some organization and controls on our subsidiaries, while Hutchison's subsidiaries rode off in all directions at once."²⁴

Governance was based on the nature of Jardine, Matheson's acquisitions --- and the firm's expectations of its acquisitions, specifically:

- (1) Jardine, Matheson chose high potential acquisition prospects that would benefit from an infusion of cash, but could be expected to yield high returns within a relatively short period;
- (2) Approximately half of all acquisitions Jardine, Matheson was a 40% or less owner. The firm expected acquisitions to raise additional equity capital;
- (3) Half of all acquired firms were or became subsidiaries, if they met the firm's 25% hurdle rate within three years.
- (4) Divested firms continued to be successful – like Rennies, Hong Kong Electric and Gas, among others and Jardine, Matheson enjoyed a continued relationship with these firms
- (5) Resources were very widely dispersed among associated and subsidiary firms.

In fact, part of the selection process for such firms was their ability to provide resource access in a part of the world where access was needed. Associates and subsidiaries were expected to participate in Jardine, Matheson's interfirm market, that is to say the identifiable flows of goods, services and resources among technologically separable units that transform raw materials into finished products. The product systems, referenced in an earlier section, and coordinated by Jardine, Matheson was an intermediate business model between the poles" of corporate administration and market governance, having the organizational routines, information sharing and flexibility of the one and the cost advantages of the other.

For example,

- Jardine, Matheson ran sugar plantation in Australia, the Philippines and Hawaii. The firm harvested its own sugar as well as sugar from other plantations with equipment from the sugar harvesting equipment plants it owned. Jardine sent the raw sugar to one of three sugar milling firms it owned and shipped the sugar to world ports in its own vessels -- or stored it in its own container terminals. The sugar process involved the interaction of some 4 to 6 Jardine subsidiaries.

²⁴ Jeremy Brown to Carol Connell, interview at Matheson & Company, London, May 1998.

- Jardine, Matheson had a cluster of services available to its business lines in each major market. Jardine Fleming financed the bailout of Hongkong Land. Jardine Engineering Corporation was awarded construction projects by Gammon Construction and the elevators installed were Schindler Lifts
- In transportation and shipping services, Jardine, Matheson and its subsidiaries provide ship management and shipping agencies, terminal operations, logistics services (including air freight, warehousing and distribution from locations in China, Hong Kong, Taiwan, Singapore, Malaysia and the Philippines)

To each of its subsidiaries and to the firms for which it acted as principal and agent, Jardine, Matheson provided a cluster of capabilities that included trading, banking, maritime insurance and shipping --- the same services known in the China trade as "agency services." Underlying these was a network of relationships built and sustained by frequent communications and the development of logistical and organizational routines to facilitate trade. Jardine, Matheson not only handled direct imports and exports to and from Hong Kong, but also handled 'third-country' trade," where the firm acted as a middleman. Jardine purchased raw materials and sold finished products throughout the world, served as the eyes and ears of major clients, provided them with global market information and analysis through its associates and subsidiaries, and helped smooth out the rocky road their clients would face in dealing with foreign languages, foreign currencies and foreign governments.

To manage relations with subsidiaries and associates, Jardine, Matheson's directors were selected for representation on the associate or subsidiary's board of directors. Jardine, Matheson & Company never held an interest without voting power in an associated firm. Jardine's directors were responsible for setting financial goals and communicating overall firm strategy, and they represented the associate's interests on the Hong Kong, Asia Pacific regional and Jardine, Matheson Holdings boards.

The historical practice of interlocking directorates continues. The table which follows shows the interrelatedness of Jardine's subsidiary businesses in 1992, a small slice of the overall picture but evocative.

Jardine, Matheson & Company ---Cross-board Seat Holdings 1992

Director	JM Holdings	Jardine Strategic	Dairy Farm	Hongkong Land	Matheson & Company	Mandarin Oriental
Henry Keswick	Chairman	Chairman	Director	Director	Chairman	Director
Nigel Rich	Managing Director	Managing Director	Managing Director	Managing Director		Managing Director
C.I. Cowan	Director	Director	Director			
R.C. Kwok	Director	Director	Director	Director		Director
R.E. Moore	Director	Director	Director	Director		
Gregory Terry	Director		Director			Director
George Ho				Director		
Simon Keswick			Chairman	Chairman	Director	Chairman
C.G.R. Leach		Director	Director	Director	Director	Director
Sir Charles Powell			Director	Director		Director

Decision-making and Information Sharing

Prior to 1980, Jardine, Matheson & Company was organized on a functional basis in Hong Kong and on a geographic basis overseas. After 1983, functional management and grouping of related activities took priority over geographic organization. Distinct business units within Jardine, Matheson's core businesses were run as profit centers. The board of directors gave the managing directors of operating units near autonomy in running their businesses. Subsidiaries and associates made their own operating decisions. The parent company board approved every major investment decision. New investment opportunities were generated in two ways (1) markets were identified where expertise in an existing core business would give the firm a competitive advantage and (2) key geographical areas were selected for expansion and viable businesses subsequently identified for investment. Responsibility for presenting the investment proposal to the board lay with the board member responsible for a function (business line) or geography. Jeremy Brown, former managing director of Jardine, Matheson during the mid 1970s confirms, "There tended to be over that period an alternation between a regional and a functional basis for management control purposes but, however they were defined, each area was always the responsibility of a main board director."²⁵ Functional and geographic organizations reported to an executive director. Executive directors were members of the board

In 1986 an additional board was created, the Asia Pacific board, consisting of the managing director of Jardine, Matheson Holdings and the heads of Jardine's regional offices. Its purpose was to review the investment proposals, examining their potential impact on the region as a whole and assuring that the required supporting information and documentation had been evinced before a presentation was made to the Jardine, Matheson Holdings Board. This

additional review opportunity ---call it an approval layer, if you will --- was one of several corrections made in the aftermath of the Hongkong Land stock swap. It was intended to ensure that information critical to decision-making was shared and evaluated across the company.

Consider the hypothetical situation of an investment proposal for a new container port in Hong Kong. The Hong Kong head office, specifically the Ship Management Group, would generate the initial investment proposal. The proposed container port will impact much of the import/export trade of Jardine Pacific; hence Jardine Pacific vets the proposal. The port will handle re-exports from a number of Asia Pacific countries in which Jardine, Matheson has interests.

The proposal would then go to the Asia Pacific board where the container port's consequences for the broader Pacific region were considered. The new Hong Kong container port is seen to have a potentially heavy impact on Jardine, Matheson's trade with Southeast Asia, which is expected to grow by 10 to 14% through the year 2006. The investment will give Jardine, Matheson a significant edge in Southeast Asia over container competitor Hutchison Whampoa. The cost of the new container project --- and its potential profit for Jardine, Matheson --- will be discussed next with the Jardine, Matheson Holdings board of directors and with Matheson & Company, which is always involved in investment and borrowing decisions.

The participants in the container port discussion would have represented a cross-section of the firm's interests and some very senior managers. Jardine Pacific, which included the firm's transportation, trading and distribution interests, had the largest membership --- reflecting the dependence on these Pacific rim services by Jardine's geographic and functional businesses around the world.

The ability of groups of executives with increasing oversight to examine the potential consequences of an investment decision on the firm, its subsidiaries and the Asia Pacific region as a whole was a source of strategic strength to Jardine, Matheson and characteristic of the firm's use of its "feet on the ground" --- its country offices and subsidiaries as an information club.

²⁵ Jeremy Brown, Esq. to Carol Connell, June 1998.

Building an Industrial Atmosphere -- Impact on Influence and Reputation

Jardine, Matheson's senior executives also played important external roles on behalf of the Company and its influence in Hong Kong --- as well as in London's financial district.

Representation on the Hong Kong Legislative Council

Until 1997, the "unofficial" members of the Governor's Council were representatives of Hong Kong business and banking. Two of the thirteen unofficial members of the Legislative Council were appointed as a result of an election by the Unofficial Justices of the Peace and by the Hong Kong General Chamber of Commerce. From 1958 to 1962, H.D. M. Barton of Jardine, Matheson held a seat. From 1962 to 1968, S.S. Gordon, a chartered accountant, former chairman of the Hong Kong General Chamber of Commerce and a director of Jardine, Matheson held a seat. From 1971 to 1978, M.A.R. Young-Herries, managing director of Jardine, Matheson, held a seat.

As an "unofficial," the seat holder had no vote, but access to information was complete, and influence could be brought to bear on the Governor and on the Standing Finance Committee in private. Unofficial influence secured the withdrawal of bills even after their introduction into the Legislative Council. For example, the Commissions of Inquiry Bill of 1966 was withdrawn when the Attorney General acknowledged the misgivings which had been expressed to him by the unofficial and by the Incorporated Law Society of Hong Kong since publication of the bill.

The unofficials represented a majority on the Standing Finance Committee and exerted the most influence there, where meetings were held in private and their proceedings were not published. Since most legislative and executives acts involved finance, the Standing Finance Committee discussed most aspects of Government policy, although discussions were limited to expenditures not to revenue.

Because the strength of the British Colonial Government rested on the alliance between British officials and the Chinese business community, support to both sides was assured by the British business community, which collectively contributed in excess of 12% to the GDP of Hong Kong and formed a highly influential power bloc, consisting of Jardine, Matheson & Company; Butterfield and Swire, Hutchison International, the Dairy Farm Ice & Cold Storage Company; Wheelock Marden & Co., and the Hong Kong & Shanghai Banking Corporation.

The meetings of the Standing Finance Committee were sometimes held at the Royal Hong Kong Jockey Club, whose stewards in 1969 included J.A.H. Saunders, chairman of the Jockey Club, member of the Executive Council and chairman of the Hong Kong & Shanghai Banking Corporation; Sir Sik-nin Chau, chairman of Dairy Farm Ice & Cold Storage; J.L. Marden, member of the Executive Council and chairman of Wheelock Marden; J.D. Clague, director of Dairy Farm and member of the Executive Council; Fung Ping-fan, member of the Legislative Council; M.A.R. Young-Herries, chairman, Jardine, Matheson & Company and member of the Legislative Council; and Djun J. Ruttonjee, formerly senior official in the Legislative Council. The club was exclusive and immensely influential. The Jockey Club held a monopoly on legalized gambling in Hong Kong and its stewards were responsible for making lavish charitable donations from gambling earnings. Representatives of Jardine, Matheson also sat on specific committees of the Legislative and Executive Councils.

Board Membership – Hongkong & Shanghai Bank

From 1877 through 1996, members of Jardine, Matheson sat on the Board of Directors and the London Advisory Council of the Hongkong & Shanghai Banking Corporation. So did Jardine, Matheson's major competitors in Hong Kong, like Swire, Wheelock, and Cheung Kong (Hutchison Whampoa) among a dozen or so, including local competitors like Dodwell's and Gibb Livingston. Hence, these seats were even more important to information access -- and potential collaboration -- than to influence and individual firm advantage.

Jardine, Matheson & Company and the Hongkong & Shanghai Bank became partners in at least six Jardine owned businesses: Central Registration - Hong Kong, 1973 (HKSB had 50% equity); East Point Reinsurance in 1979 (HKSB held 15% equity); Jardine Matheson Holdings (HKSB held 5% equity); British & Chinese Corp. (HKSB had 50% equity); Far Eastern Economic Review (HKSB held 50% equity) and South China Morning Post (HKSB held 40% equity).

The British & Chinese Corporation was a 20th century relic of the firm co-founded by Jardine, Matheson and the Hongkong & Shanghai Bank to fund railroads in China. The collaboration continued into the 20th century, during the 1960s and 1970s, the period of Hong Kong's industrial development. As discussed earlier, Jardine, Matheson & Company invested in every sector of Hong Kong business. At the same time, the Hongkong & Shanghai Bank made HK\$976 million in loans and advances to local Hong Kong firms, many of the loans to companies who enjoyed a relationship with Jardine, Matheson in the areas of manufacturing, textiles, electricals and electronics, transport, electricity and gas, building construction and general commerce.

Actual loans and advances made by the Hongkong & Shanghai Bank understates the whole investment story. The bank assisted local manufacturers through a phenomenon called "packing credits," bills of credit drawn on the Hongkong & Shanghai Bank by manufacturers for purchase orders from firms like Jardine, Matheson; Gibb, Livingston; Dodwell's and Hutchison for the sale of merchandise. The packing credit provided an advance to the small manufacturer for the raw materials necessary to produce goods for shipment and sale. The packing credit is an example of the use of an unofficial, short to medium term loan to facilitate trade, where one or more of the participants has low working capital. Jardine, Matheson also made use of this convention in its relations with subsidiaries and customers.

Summary

In this paper, we looked at Jardine, Matheson's resource/services choices in a highly volatile but opportunity rich environment, and at the internal and external organization the firm developed to exploit opportunities while reducing risk. In such an environment, there were no monopolies, and ownership alone would not have effected the efficiencies that were possible through Jardine, Matheson's external organization.

In this environment, Jardine, Matheson acted as a risk broker, providing trading and production credits to customer and supplier firms and deriving competitive advantage from a governance arrangement that was neither internalization (vertical integration) nor market governance (commodities purchase in the open market), but a Marshallian external organization, in which constructive cooperation was essential.

While its primary function was trading --- that is, matching buyers and sellers of diverse products --- in performing this core activity, Jardine, Matheson was entrenched in a number of key industries on a recurring, long-term contract basis. In these industries Jardine, Matheson was typically involved at different stages of the value chain, from the purchase of raw materials to the marketing of the final product. The firm's uniqueness lies in its capacity to provide essential links between stages in a product system for client firms, only one stage of which was trading. Other services provided by Jardine, Matheson drew on the firm's historical "agency services" --- finance, insurance and shipping.

This external organization was based on dense interfirm relationships, built on trust and frequent interaction, that contributed to the resilience of the firm and to the strength of thnational economies in which the firm operated. The "essential links" were the productive services of associated and subsidiary firms, linked to Jardine, Matheson (and national GDP) through trade, through investment, through trade credits and through employment in an "industrial district," in Singapore or Philippines or Malaysia or Hong Kong.

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