

SUMMARY

The W.A. Scholtencompany: the first Dutch industrial multinational

INTRODUCTION

On a national and international level, the history, development and impact of Dutch Foreign Direct Investment (FDI) has been subject of increasing study over the last ten years. This attention has not been undeserved. The research has shown that the Dutch have held a comparatively strong position in FDI since the First World War. Prominent Dutch multinationals, such as Philips, AKZO (today AKZO-Nobel) and the Dutch-British combinations Unilever and Koninklijke/Shell, which are still well known today, became involved in FDI in the first decades of the 20th century. Dutch FDI has not been a purely 20th century phenomenon; although the proportion of FDI was on a smaller scale, there have been numerous Dutch multinationals active from the 1600s onwards. The Dutch East India Company may serve as an early and famous example. But there were more, less known, and smaller initiatives of Dutch entrepreneurs who sought their fortune in foreign countries. These initiatives showed a large variety in terms of scale, geographical direction, duration, organisation and type of business. One of these entrepreneurs was Willem Albert Scholten (1819-1892), who in the period 1866-1889 founded ten potato flour factories in Germany, Austria-Hungary and Russia.

W.A. Scholten was the first Dutch entrepreneur who successfully started and flourished in the potato flour industry. In 1841, he founded a small factory in the province of Groningen. The factory was quickly producing potato flour using industrial processes, maximising economies of scale and scope. Based on this approach the Scholten company can be considered as a first mover in the Dutch potato flour industry. During the next fifty years, Scholten founded 21 factories and became one of the first important industrialists of the Netherlands. Seventeen factories produced potato flour and its derivatives, the other four were a sugar refinery, a potato gin and wheat distillery, a strawboard factory and a peat dust factory. In addition to his industrial investments, Scholten had large investments in peatlands, farms, and shares.

From 1866 onwards Scholten became financially active in Germany (Prussia), Austria-Hungary and Russia, establishing a total of ten potato flour factories within these countries. These

investments can be considered foreign direct investments (FDI). With their engagement in FDI starting in 1866, well before other Dutch companies, the W.A. Scholtencompany can be considered as the first Dutch industrial multinational. The FDI of the W.A. Scholtencompany is noteworthy because in the 19th century, the Netherlands was not a leading country in the development and exportation of industrialisation. What makes this company even more interesting is the study into the success factors surrounding the operations of the factories in the different countries. Not all of the factories abroad were successful. Of the ten subsidiaries founded, only four were still in operation in 1892, the year their founder, Willem Albert Scholten died.

Chapter 1 addresses the methodology and theoretical background of the study. The thesis studies the FDI of the W.A. Scholtencompany in the period 1866-1892. The central questions are: why W.A. Scholten started to establish foreign subsidiaries, how they were organised and financed and how successful they were. The answers are formulated from archival research and literature study, using concepts developed in business history and economic studies on multinationals.

Chapter 2 examines the Dutch potato flour industry in the 19th century. Here, the question is asked if the industry had certain characteristics that would give companies in this industry reason to engage in FDI in the second half of the 19th century. The focus covers the development of the industry, location factors, the role of technology, trade policies and government legislation, as well as market factors such as patterns in the supply of raw materials, labour, sales and distribution. After studying all of these factors, it is clear that there are no direct indications why a company in this industry would be inclined to engage in FDI in this period.

Chapter 3 moves attention to the Scholten company, to ask if there were any factors within the company that could indicate the motive for FDI. In the literature on multinationals, it is a generally accepted idea that competitive advantages play a decisive role in a firm's engagement in FDI. In this study, these advantages are identified as ownership advantages. Through the analysis of the objectives, the organisation, investment financing, and strategy of the firm, the following ownership advantages are identified:

- Strong personality and ambition of entrepreneur
- Preference to take advantage of pioneers position
- Diversification
- Strong solvency
- Early international orientation

The motive and timing of FDI of the Scholten company were determined within the company itself. Scholten's involvement in FDI can be considered as a part of a range of different international activities. Before the company started establishing factories abroad in 1866, it was already engaged in exports to neighbouring countries for over ten years. FDI in Germany was preceded by export to this country. The opportunity for international expansion arose in the first half of the

1860s. At that time Scholten's exports of potato flour syrup to Germany increased beyond his capacity to supply product from his factories in Holland. After finding favourable factors for local production, Scholten decided to found a factory in Germany. These factors consisted of good opportunities on the selling market, the availability of cheaper and better raw materials and the prospect of lower production costs.

Chapter 4, 5 and 6 examine the activities of the Scholten company in Germany, Austria-Hungary and Russia. The main questions are why W.A. Scholten became active in these countries and how he managed to exploit his potential competitive advantages abroad. The daily practises at the factories along with the organisation, investment finance and the performance of the individual factories are examined.

W.A. Scholten did not develop a specific strategy for his foreign investments. Purchase of raw materials, production, selling and distributions were simply copied from his 25 year successful Dutch operations. In accordance with his solo managing style, Scholten from the beginning, established wholly owned subsidiaries abroad. The approach was monocentric, meaning that the foreign subsidiaries were completely dependent on the parent company in the Netherlands. As he was accustomed to in the Netherlands, Scholten engaged separate managing directors for each factory. In the foreign factories, all the managing directors, office clerks, bookkeepers and supervisors in the factory were Dutch. The foreign factories were financed by maintained reserves. Most of these were invested in both Dutch and international stocks. As a foreigner, Scholten was not hindered by the authorities to establish a business in Germany, Austria-Hungary or Russia as long as he submitted to local legislation and taxes.

In Germany, W.A. Scholten was able to successfully copy his Dutch strategy. For over 50 years, the firm managed to successfully exploit most of its five factories in Prussia. It established itself as a pioneer in the areas in which it became active, and was able to exploit the advantages this position brought about. In Austria, the Scholten company was less fortunate. Scholten established two factories in Galica and one in Monrovia. Due to wrong location choices, the management of the factories in Austria was not able to gear the supply of raw materials to manage production and sales. This was caused mainly by unexpected high costs of raw materials transport. The disappointing results brought about serious tensions between the Dutch management in Austria and W.A. Scholten in Groningen. The tensions led to irregularities in the management. Production never started properly in Austria, and as a result the Scholten company was never able to establish itself as a pioneer on the Austrian market. Therefore, it was not able to profit from its competitive advantages. Scholten did not gain any foothold in Austria and was forced to sell his factories sustaining large losses. In Russia, the Scholten company established two factories. The first one in Petrokow was not very successful, due to a combination of wrong location factors and mismanagement. The second factory in Nowy Dwor initially proved to be one of Scholten's best factories abroad, until a new law in passed in 1887 which disallowed foreigners from owning or exploiting factories in Russia. This resulted in W.A. Scholten deciding to sell his factories in Russia.

Chapter 7 explores the significance of the FDI for the W.A. Scholten company as a whole. Did they yield any profits or did they only cost the firm money? Moreover, did they contribute to the competitive advantages of the company? To answer these questions, the strategy and financial results and yields of the individual factories and other investments of the firm are analysed.

The importance of the foreign investments is illustrated by its share in the total of invested capital. Until the second half of the 1880s, the foreign factories had the largest share. After selling most of this factories abroad, Scholten turned to new investments in the Netherlands. Besides new initiatives in the potato flour industry, he also invested in peatbogs, farms, property and shipping shares.

The yields of the individual factories abroad varied enormously. A few factories were very profitable, while others lost money. Scholten's strategy worked well in most factories in Germany and Russia, but not in Austria. An important factor that influenced the results was W.A. Scholten's personality, which had a strong influence on his strategy. He had trouble anticipating situations that differed from those he was used to. If his strategy was not successful in one place, he would not adapt but simply move to another place where he hoped he would have more luck. Another factor that played an important role is that W.A. Scholten did not change the organisation of the firm after FDI. While his company was growing, W.A. Scholten tried to stay on top of everything, which proved impossible. This resulted in clashes with his management, which in turn led to bad performance of the factories. The inability of W.A. Scholten to adapt his strategy and delegate power led to the decrease of competitive advantages of many of the foreign factories, and also prevented management abroad to create new competitive advantages.

But individual failures abroad did not have a large effect on the financial results of the firm as a whole. The losses were covered by the profits of the successful factories. Another very profitable factory of the company was the sugar refinery. Together with those of the successful factories abroad, the yields of this factory were mainly responsible for the strong solvency position of the company.

On the company level, it can be concluded that W.A. Scholten was very successful to turn his ownership advantages into competitive advantages. His strong personality and ambition kept the firm flexible and broadly oriented. His preference for gaining a pioneers position with his factories brought him large profits in most cases, and guaranteed strong solvency. The FDI and the investment in different industries contributed the spread of risks. This made it possible to keep investing, in the both Netherlands and abroad. At the end of his life, with a fortune of almost 5 million guilders (at that time) W.A. Scholten could look back on an impressive career as an entrepreneur.

Chapter 8 compares the development of the multinational W.A. Scholten to the development of the FDI of Dutch companies. Here, the question is asked why it was possible for the W. A. Scholten company to engage in FDI, while industrial development in the Netherlands was just

taking off. The answer lies in several factors. First, the company did not rely on a fully industrialised environment. The potato flour industry was located in rural areas and due to the simple production techniques it was easy to profit from economies of scale and scope. Sales were aimed at trades in the food business and other industries that by this time had been established, or were developing such as the textiles-, and paper industry. Second, Scholten did not rely on a developed capital market, because of his strategy of internal financing. Third, where most 19th multinationals developed due to increasing protection of trade the Scholten company, in the 1860s and 70s profited from the policies of free trade.

The epilogue describes the development of the Scholten company in the 20th century. From the turn of century until the Second World War the Scholten company developed from a personal to an entrepreneurial enterprise. Rising competition from co-operative potato flour factories and growth of research and development in the industry lead to new investments in production and distribution, which would create new competitive advantages for the company. The introduction of potato starch derivatives lead to renewed FDI and further investments in different industries. The influence of members of the Scholten family on the management decreased. After the Second World War, the company developed into a managerial enterprise. During the 1950s, 1960s and 1970s the company grew substantially by means of take-overs and mergers. However, uncontrolled new (foreign) investments and incompetent management lead to bankruptcy in 1978.