

**Private networks in the first Globalization
– the case of the Wallenbergs and the Glückstadts, 1890s-1920s**

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Introduction

East Asiatic Company (EAC) was founded at bank director Isak Glückstadt's office at Landmandsbanen in Copenhagen on March 20, 1897. Initially at the behest of Captain H.N. Andersen, the aim of EAC was to combine a shipping line based on three new steamers connecting Copenhagen and Bangkok with forest and mine concessions in Thailand (then called Siam), saw mills, rice mills and a trading company (EAC archive, October 1896). The whole setup was rather unusual in Denmark at the turn of century. In contrast to most contemporary Danish firms, EAC was not a home-market-oriented, small family enterprise. On the contrary: EAC was a "Born Global", with multinational activities from the commencement, marked by dispersed ownership, international finance and economies of scale and scope. The vision went beyond the firm. Several months before the founding, Andersen described the motivation behind establishing a new steamship line from Copenhagen as "a necessary condition for Danish businessmen to successfully exploit the chances that are given them to take part in big business in Scandinavia and the Baltic, [arising from] Copenhagen's favorable location by the entrance to the Baltic" (EAC archive, October 1896). Such geo-political ambitions mirrored the importance – and self-understanding – of individual businessmen and the nature of personal networks in the late nineteenth century (Djelic & Quack, 2003; Whitley, 2003).

By 1907, EAC had more than 2,500 employees, its tremendous growth in the late nineteenth and early twentieth century has, as yet, to be replicated by Danish companies even 100 years later, where the economy in general and corporations in particular function on a completely

different and larger scale.¹ Various Danish historians, economists and journalists who have studied the early development of EAC (Lange, 1985; Højbo, 1993; Kamstrup, 2010; Ellemose, 2011; Iversen, 2016) demonstrate that the extraordinary income of the Russian subsidiary Russian East Asiatic Steamship Company (REASC) primarily accelerated the early growth of EAC.² The mentioned research in EAC's early history also unveiled how EAC was about to suffer from a corporate sudden infant death syndrome in 1903 when the income dropped from 9.27 million DKR in 1900 to 4.76 million DKR in 1903 while more than 2.4 million DKR were lost due to fraud in the distant departments in Bangkok and Shanghai (Iversen, 2016, p. 127). As in 1900 it was the Russian subsidiary, REASC, which proved vital to EAC. In 1904-05 EAC made a net earning of around three million DKR on transporting Russian supplies for the war with Japan. In the following decade before the Great War EAC – and the shipping world in general- experienced a remarkable economic upswing. EAC was no longer reliant on its close connections to Russia.

This article is focused on the formation of an international financial syndicate, created in the fall of 1898 in order to finance EAC's essential Russian connection - REASC. The syndicate consisted of six banks from respectively Denmark, Sweden and Germany. The initiators and most important actors were Isak Glückstadt from Landmandsbanken in Copenhagen and K.A. Wallenberg from Stockholms Enskilda Bank whom negotiated the terms and conditions from August 1898 to December 1898, when the agreement was signed upon.

Isak Glückstadt, the managing director of Landmandsbanken the largest bank in Scandinavian at the time, hosted the founding of EAC in March 1897 and became the first chairman of the board. Glückstadt belonged to the international financial elite of the late 19th century, which the author Frederick Lewis Allen phrased "lords of creation" (Allen, 1935). As Ron Chernow

¹ Four years after the founding, at the general assembly in May 1901, EAC's chairman, Glückstadt, presented the annual result. In just four years the annual income had expanded from 224.000 DKK in 1897 to 9.27 million DKK in 1900 - equivalent to 638.4 million DKK in 2016 value (app. 100 million USD). The assets of the company was 15.94 million DKR or 1.098 million DKR (app. 175 million USD). During year 1900 EAC had established monumental regional headquarters in Bangkok and Shanghai and five new steamships were contracted (EAC, annual report 1900). A Danish governmental report from 2015 showed that for almost 20 years around the turn of 21st century Denmark (1996-2014) was unable to foster a single new company, which grew up to a size of more than 1000 employees (Erhvervsstyrelsen, 2015).

² The extraordinary income was related to the boxer rebellion in China, which forced the Russian government to contract REASC for the transportation of supplies and approximately 20.000 troops from the Black Sea to the Vladivostok in the Far East (Kamstrup, 2010, p. 243).

stated in his book about J.P. Morgan, the pre-1913 bankers "... financed canals and railroads, steel mills and shipping lines, supplying the capital for a nascent industrial society." (Chernow, 1990, p. xvi). As a consequence this financial elite proved more powerful than the companies they financed and acquired as the bankers distributed scarce capital in expanding societies marked by industrialization and internationalization. At the turn of the Century capital, people and goods were exchanged across European borders at a relative level, which in some aspects – for instance level of foreign trade to GDP in Great Britain - was only superseded in the 1990s (Krugman, 1995). In the early globalization "... institutions, exchanges, cooperation and the management of uncertainty ... relied typically on ... relatively ad hoc, isolated and case by case mechanisms (Djelic & Quack, 2003, p. 5). According to Richard Whitley the weak formal institutions of the pre-1914 international business environment, which the British political economist labelled "particularistic". caused a considerable "reliance on personal and informal networks" (Whitley, 2003, p. 112).

The formation of the Russian subsidiary REASC in June 1899 was ambitious and risky. The traditional research perspective on the strategic development of EAC will be changed in this paper, which addresses the early financing of the expansion. The paper builds on an access to the correspondence from Isak Glückstadt to K.A. Wallenberg combined with the board minutes of the East Asiatic Company. The aim is to understand how an international financial syndicate was formed, how the mutual trust was established.

The paper is divided in four sections. The formation of REASC will be presented in the first section including the strategic considerations behind the Russian activities. This initial story is well known and this presentation is based on a combination of existing books and archival material from the EAC archive – primarily Board Minutes. The following section concerns the actual formation of the international financial syndicate in 1898. The section is based on archival material from the Swedish Wallenberg archive and the EAC archive. Then follows an analysis of the financial syndicate as an example of a personal network based on a trust between key-actors (Isak Glückstadt and K.A. Wallenberg), which neutralized the high uncertainty of the situation. This uncertainty had two roots: the weak international institutional setting of the time and the precarious nature of the large Russian investment less than two years after the founding of the parent company. The formation of the syndicate in

the fall 1898 will be analysed with a specific focus on three major arenas in which uncertainty arises: search (finding business partners), agreement (decisions about how to pre-empt opportunism) and control (the monitoring of the execution of the agreements and possible sanctions in case of violations) (Whitley, 2003). *Trust formation* The final conclusion concerns the formation, and characteristic of a financial syndicate, which apparently was archetypical for an age based on strong business individuals and weak international institutions. Today, 100 years later, there are signs in the time of private actors, who once again gain political and economic strength on the expense of international trade institutions. Insights from the first globalisation might help us to understand the possible logics of markets marked by weakened international institutional settings combined with strengthened corporate actors.

Andersen and the founding of REASC

December 15th 1897, less than 9 months after the founding of EAC, H.N. Andersen signed a remarkable Memorandum of Understanding with Sir Thomas Sutherland, chairman of the well-established British shipping Company P&O founded in 1837 (Iversen, 2016, p. 78). The agreement recognized EAC as an associated partner in the British-German-Dutch liner conference "The Agreement for the Working of the China and Japan Trade, Outward and Homewards", which controlled the steamship liner trade between South East Asia and Western Europe. One thing was to be recognized and able to operate services between Northern Europe and Southeast Asia. Something completely different was to fill the ships and thus create a profitable business. That was the challenge for H. N. Andersen in the spring of 1898. In the international scale, Copenhagen was still only a regional port, it was unlikely that trade on the Danish capital could sustain a steamship line to South East Asia. A possible solution lay in the P&O Agreements first sentence: "It is the understanding that EAC aims to develop transport between Copenhagen and the Baltic ports and the East (Asia)." (EAC, 15/12/1898).

Andersen saw opportunities around the Baltic Sea. In addition to Germany, which of course had its own steamship companies, then the four countries around the Baltic Sea - Sweden, Denmark, Finland and Russia - did not have any liner shipping companies at the turn of the Century. The interesting perspective was to look at the relationship between foreign trade and the countries' existing merchant fleets - the availability of potentially competing carriers.

And the relationship varied greatly. The three Nordic countries had a relatively modest annual international trade: Denmark 788.6 million DKR, Sweden 800.1 million DKR. At the same time, the Nordic merchant fleets were relatively large with respectively 918.000, 973.000 and 383.000 registered tons. All three countries belonged to the group with the most tonnage per capita in Europe. (Iversen, 2016, p. 325)

In contrast the foreign trade from Russia was in line with the medium-sized European powers Italy and Austria-Hungary at 2.592 million DKR. At the same time the Russian merchant fleet was at just 518.000 tons. Consequently Russia was the European country with the smallest merchant per capita. On paper, Russia was thus a unique market opportunity for an expansive shipping company in the Baltic region. But there were major complications. In the Tsar's time the bureaucratic government Saint Petersburg controlled foreign investments, international trade, transport and finance. Shipping was no exception.

One of the leading forces in Russia's industrial and geographic expansion was Finance Minister Sergei Witte appointed by the Czar in 1892 (Kamstrup, 2010, p. 219). Witte wanted a stronger national merchant fleet, and in 1897 the Duma adopted two important rules for the intra-Russian trade between the Russian ports of the Baltic and the Black Sea in the west and the Russian ports in various parts of the Pacific in East Siberia including Port Arthur and Vladivostok. The two laws were approved by Tsar Nikolai II May 28, 1897 and in force January 1, 1900. According to one of the laws Russian registered shipping companies received the solely right for transport between Russian ports. The second law was a direct state aid in the form of compensation for the significant costs passing the Suez Canal. Russian maritime transport was prescribed for national companies with state concession. In practice this was in favor of the highly inefficient, but nationally oriented shipping company "The Voluntary Fleet", created by naval officers in 1878 in St. Petersburg. The market was therefore closed. Also for EAC. (Iversen, 2016).

Andersen's stubbornness was not to be denied. The obstacle for EAC was indeed very simple: Russian maritime transport was exclusive for Russian companies. Andersens solution, which took shape already in the first months of 1898, was to create a Russian affiliate of EAC, in

order to be able to use the opening in the P & O Agreement on the right of the Baltic Sea transport and thus potentially on the large, lucrative Russian market (Iversen, 2016).

Andersen faced three immediate challenges: On the one hand EAC needed a formal approval of an - in reality - Danish-controlled shipping line and on the other hand he was forced to navigate the unmanageable and infamous Russian bureaucracy. Thirdly - and perhaps even more difficult - EAC had to finance a new Danish-Russian company. The financial solution had to be in place only few months after the establishment of the EAC. A regular line of sailing from St. Petersburg via Copenhagen to Southeast Asia and Bangkok would require five to six large steamers. That was all ØK's available tonnage plus additionally two to three new buildings or chartered vessels. The new investment was of a scale, which exceeded the entire existing EAC.

The formation of an international financial consortium

Tuesday the 5th of August, 1898 Isak Glückstadt from Landmandsbanken sent a telegram to KA Wallenberg the chairman and managing director of Stockholms Enskilda Banken (SEB) in Stockholm. In the short message Glückstadt asked if he could visit KA Wallenberg in Stockholm in company with his "business friend" Axel Heide, managing director of Privatbanken in Copenhagen. The background of the telegram was three-fold. Firstly Glückstadt decided that the plans for a Russian steamship company under the umbrella of EAC was so ambitious that it was applicable to initiate an international financial consortium, which could finance the endeavor. EAC itself had been established 15 months earlier - in March 1897 - primarily with Danish capital with private investors combined with loans and investments from Landmandsbanken and Privatbanken: The share capital was 2 million DKR plus 1.5 million DKR in corporate bonds. Three steamships had already been ordered for EAC and an investment in REASC, was planned to be at the same high level.

Secondly Glückstadt decided in early August 1898 that the actual plans for the formation of REASC was so realistic that the formation of an international consortium should be made. At this stage Andersen had been in St. Petersburg in February 1898 negotiating with local business partners and the board of EAC had decided to sail back to St. Petersburg on board *S/S Siam* on August 24th in order to decide on the investment and to stay in the Russian capital and together negotiate for a formation of the Russian company. Glückstadt needed an indication from the possible international investors before the board meeting took place and

not less important the negotiations with business partners and government representatives in St. Petersburg were initiated.

Thirdly Glückstadt and KA Wallenberg had worked together for ten years in a Scandinavian cooperation concerning state bonds. Isak Glückstadt and the Danish bank Landmandsbanken had been active on the Swedish market for state bonds since December 1885 when he participated in a consortium with the young Swedish banker Ernest Thiel (Forssberg, 2015, p. 22). Thiel was later employed at Stockholms Enskilda Banken and in July and August 1888 Wallenberg and Glückstadt made an cartel-like agreement, which shared the Scandinavian state loan business between them (KAW, 20/7/1888; 21/7, 1888 & 11/8 1888). In the early 1890s the two directors initiated a relative intense correspondence consisting of five letters from Glückstadt to KA Wallenberg between June 1890 and July 1891. In the June 1890 letter Glückstadt asked if KA Wallenberg had knowledge of any skilful possible manager for the newly established Danish Paper and Pulp manufacturer “De forenede Papirfabrikker A/S”, and in the following four letters three large loans were discussed including a syndicate for the issue of bonds concerning a Swedish regional railway and request for a private meeting including the wife of the banker. There is no registered correspondence in the archive from Glückstadt to KA Wallenberg from 1891 to June 1898 when the Danish banker re-established the contact in a letter asked – on behalf of a Danish industrial contact - for advice concerning the possible sale of the Diesel-patent in Norway (KAW, 3/6/1898).

Tuesday August 5th 1898 KA Wallenberg confirmed the requested meeting in Stockholm but Swedish support behind the initiative syndicate was not confirmed immediately. The two Danish bankers, Glückstadt and Heide, were instead advised to contact Theodor Mannheimer and Olof Wijk den Yngre from Svenska Kredit AB in Gothenburg. KA Wallenberg would ensure that the Swedish banking- and shipping interests in Gothenburg were provided the opportunity to participate in the investment of a new Russian steamship company.

Thursday morning 7th August 1898 Glückstadt and Heide arrived to Gothenburg. Firstly they got the opportunity to explain the Russian plans for Theodor Mannheimer alone and thereafter also for the managing director of Skandinaviska Kredit AB, the 75 years old banker Olof Wijk den Yngre (KAW, 10/8/1898).

Back in Copenhagen, on Saturday 9th August 1898, Glückstadt received a letter from Mannheimer, who explained that the bank in Gothenburg was unwilling to participate in the

syndicate. In the letter Mannheimer explained that leading merchants and bankers had been contacted (KAW, 9/8/1898):

“For the Bank (Skandinaviske Kredit, MJI) it was important to explain carefully why the Bank for the sake of long-standing procedures did not consider it good policy to avail ourselves of the possibility. What is left is the possible interest of some financially strong individuals. Along with Herr Wijk has Mr. Andrésen and I maturely considered the matter and we have repeatedly during the day conferred with Baron Langenskiöld and have come to the conclusion that we ... doubt to be able to get something sorted. ... “

On Sunday August the 10th, 1898 Glückstadt wrote an important and long letter to KA Wallenberg for which he had made a copy of the abovementioned rejection from the banking circles in Gothenburg (KAW, 10/8/1898). Glückstadt was apparently aware that this was a critical moment in the negotiation. He explained carefully to his Swedish colleague about the meeting in Gothenburg and argued that the refusal was related to the “many grey hairs” which controlled Skandinaviska Kredit. At the time Theodor Mannheimer and Olof Wijk den Yngre were both 75 years old and they actually passed away in respectively 1900 and 1901. In the letter Glückstadt then urged KA Wallenberg to contact Louis Fraenkel, the powerful managing director of Handelsbanken in Stockholm. The point of the conversation should be that Fraenkel, who was the direct competitor of KA Wallenberg in Stockholm, should try to raise the interest of his “friends in Gothenburg” (KAW, 10/8/1898). The argumentation for the proposal was interesting as Glückstadt pointed at the larger aim of the Russian affair namely a common Scandinavian interest in breaking the commercial dominance of German and British trade:

“You know that it is especially the moral support that is so important when we should create new lanes for trade away from Germany and England for the producing countries (Sweden and Denmark) and thus support the interaction between Scandinavian merchants ...”

Glückstadt rounded of the letter with a personal greeting to the wife of KA Wallenberg with wishes for pleasant days at an imminent family excursion. Two weeks later Axel Heide followed up with a letter of gratitude to KA Wallenberg, thanking for the hospitality of KA

Wallenberg and his wife Alice Wallenberg during the visit in Stockholm. In the letter Heide also mention a promised proposal concerning the Trampways in Bangkok, which he would make on the ship *S/S Siam* with which he was about to depart on the very same day on the way to St. Petersburg with the EAC board of directors. (KAW, 24/8/1898).

The letter showed that Glückstadt and Heide had connected the participation in the financial syndicate, with a possible investments in the formation of "Siam Electricity Co. Ltd.", which was founded also in 1898 and based on a 20 years official concession for the lighting of Bangkok.

When Glückstadt had returned from the mentioned business expedition with *M/S Siam* to St. Petersburg at the end of August 1898 he wrote a three pages report to KA Wallenberg. In the letter the Danish chairman of EAC and bank manager explained about the Danish business connections in Russia, the government support for the new steamship company and like Heide, Glückstadt also mentioned the formation of an electricity company in Bangkok which KA Wallenberg could invest in. After mentioning these opportunities Glückstad referred to the scale of the proposed Russian business ((KAW, 10/9/1898):

"As you may recall EAC has currently 3 large ships, each worth 6.000 tons and 1 vessel under construction at 7.000 tons. ... The company will be forced to let build two large ships in order to establish a regular route - even in the unlikely case that the Russian company will not be established. For this purpose is needed 2.5 million kr. ... Security is undeniably good. I have promised commission once and for all by 1% and 5% interest rate, but the conditions we could probably agree on. In case the Russian business is able, the Russians should have 2 or 3 of our ships."

Due to the scale of the Russian plans Glückstadt clarified that it in order to establish a sufficient liner service to South East Asia it was necessary to loan additional 2.5 million DKR to EAC – in any case. With or without REASC. At the end of the letter Glückstadt confirmed that "the gentlemen in Gothenburg" refused to participate in the consortium. On the other hand he was in no doubt that the German banker L. Behrens & Co., with whom Glückstadt had cooperated for many years, would like to participate. On this background Glückstadt recommended that KA Wallenberg should aim to get further participation in Sweden in stead.

“I believe for sure that sound profits will flow to us from Siam.” (KAW, 10/9/1898). The conclusion of the letter referred to Siam rather than Russia, which is interesting and indicates that the mentioned investment opportunity in Bangkok was important in the argumentation for the syndicate.

In October 1898 the two Scandinavian bankers agreed on participation in the 2.5 million DKR loan to EAC – which should take place *before* the formation of the financial syndicate, and which EAC would use in order to built two new steamships. In a letter from Landmandsbanken to KA Wallenberg November 1st 1898 the conditions of the payment to EAC was stated (1/10 each month from January 1899) and the repayment would take place five years after the delivery of the first ship providing EAC an opportunity to create a viable line to South East Asia. Six banks participated in the agreement and they would be paid 1% above the lowest bank discount rate: Norddeutsche Bank, L. Behrens & Söhne, Verienbank, Privatbanken. Landmandsbanken and Stockholms Enskilda Bank.

The first draft of the consortium concerning REASC was attached to the letter leaving no doubts that the two businesses were connected. On the 3rd November 1898 KA Wallenberg confirmed his participation in the loan. He also mentioned that the Swedish government had initiated a committee, which investigated the opportunity for a new Swedish liner shipping company for the benefit of Swedish national import and export to South East Asia (KAW, 5/11/1898). The newly appointed committee member included KA Wallenbergs brother Gustaf Wallenberg and the Gothenburg-situated shipowner Axel Johnson. A result of the work became a state-funded credit foundation of five million SKR. The first Swedish liner shipping company, which took advantage of the state subsidiary was La Platalie organized by Johnson for traffic on South America and secondly AB Transatlantic for traffic on South Africa both established in 1904 (Olsson, 2006, p. 221).³ The shipowners and investors in Gothenburg were thus initiating the early planning of their liner companies, when they were approached by the two Danes bankers in August 1898. This might help to explain the skepticism in Gothenburg.

³ It is characteristic for the different perceptions of the role of the state between Denmark and Sweden, that the Danish government did not support the establishment of a steam ship line to South east Asia in the same manner. EAC was established solely by private investments. Later in the 20th century state ownership of banks, shipyards and manufacturing enterprises were more common in Sweden than Denmark. (Iversen and Andersen, 2008)

KA Wallenberg on the other hand was not directly involved in the initiatives, but on the other hand had to be careful not to be regarded as unpatriotic. In the returning letter November 5th, 1898 Glückstadt underlined the need for Scandinavian co-operation – but on the basis of the existing Danish liner company (KAW, 5/11/1898):

“As for the plans that are up in your country to form a similar company like this established, to promote Sweden's imports and exports to East Asia, I hope you will succeed through your extensive relationships with the leading men to convince them that a cooperation with the Danish company that already possesses a good foothold in the East, will be both the most convenient and the best solution of this matter.”

Two weeks later followed the draft for the consortium agreement concerning REASC. The final version was signed on December 8th 1898, and in the following letter Glückstadt affirmed that the “case itself” was not yet definitively in order, as negotiations were to be held in St. Petersburg in the beginning of 1899. As mentioned above REASC was approved by the tsar in June 1899 (KAW, 8/12/1898).

There were five partners in the consortium - Norddeutsche Bank, L. Behrens & Söhne, Privatbanken, Landmandsbanken and Stockholm Enskilda Banken – and the guarantee for the financing of the new company amounted to 6 million DKR (413.5 million DKR in 2015 or around 75 million USD). Further clauses on the duration, payments, lodge of the shares and date of emission and the course of emission would be prepared by St. Petersburger Internationalen Handelsbank, which Andersen cooperated with (KAW, 24/11/1898, see appendix 1). At the end of the contract it was stated that if dissensions occurred these would be solved by an arbitration in which each party appointed one referee. In case the partners could not agree on a chairman then the president of the maritime and commercial court in Copenhagen should appoint a chairman. (KAW, 24/11/1898, see appendix 1)

Also on December 8th 1898 KA Wallenberg received an invitation for an investment in the newly established Siam Electricity Co. Ltd. In which the consortium partners were invited to invest 2/5 of the share capital of 600.000 DKR. (KAW, 8/12/1898). The following day – on December 9th – followed the final contract in the matter namely the contract for the loan to EAC of 2.5 million DKR of which SEB in Stockholm participated with 1/6. (KAW, 9/12/1898).

Finally on December 14th 1898 Isak Glückstadt could confirm that KA Wallenberg had signed both contracts for the REASC consortium and the EAC loan – and at the same time the Danish bankers confirmed that his Swedish colleague wished to participate in the syndicate concerning the Siamese Electricity company. EAC was now ready to move on the eastern front.

Conclusion: A financial consortium in a particularistic international business environment

The agreements between Isak Glückstadt and KA Wallenberg were negotiated and agreed at a time, which can be described as a peak of the first globalization (Jones, 1996). According to the British economic historian Harold James the mobility of capital, information goods and people was primarily based on novel technologies and “markets became interconnected as a result of improved communication” (James, 2001, p. 10). While James emphasised the dynamics of new technologies such as the telegraph, railroads and steamships then researchers within political-economy have emphasised the weaknesses of formal international institutions in the early globalization. According to Djelic and Quack the background was a Westphalian system “... of largely national states, British hegemony, the Gold standard and a series of bilateral agreements between leading trading nations were stabilizing factors”. In that context, continued Djelic and Quack “... connections, exchanges, cooperation and the management of uncertainty but also the resolution of disputes relied typically on the pre-existence and structuration of transnational networks and relatively ad hoc, isolated and case by case mechanisms (Djelic & Quack, 2003, p. 5).

In accordance with this line of thinking Richard Whitley have pointed at a specific “particularistic” way in which transactional uncertainty was managed in the first globalization. According to Whitley the “... standardization and reliability of mechanisms for dealing with transactional uncertainty tends to be lower in the international business environment (IBE)” (Whitley, 2003, p. 110). Before the post-war formation of the EU, WTO, IMF and other transnational institutions there were only weak formal institutions for managing risk and uncertainty. As a consequence the prevalent ways of organising transactional uncertainty have “... involved considerable reliance on personal and informal networks, ... ” (Whitley, 2003, p. 112). Whitley suggested three areas of transactional

uncertainty, which actors were facing in the particularistic IBE: search, agreement and control (Whitley, 2003, p. 120).

“Search” concerns the process of identifying reliable business partners across national borders: “Who are able to carry out whatever is agreed or the required standards, and willing to do so at the agreed time and price” (Whitley, 2003, p. 120). This a critical phase in any economic transaction and the uncertainty of not having institutionalized standards caused, according to Whitley, that the search arena would be marked by personal and reputational knowledge.

The second arena concerned “agreement” meaning to ensure that the identified business partners can pre-empt opportunism. In a business environment marked by weak formal institutions the uncertainty means that the parties will be concerned to monitor each others behaviour (Whitley, 2003, p. 121). The monitoring relates to the third and final arena about control, which relates to the possible threats and / or use of sanctions against the mentioned opportunism – or incompetence. There is a peculiar progression in the three arenas and Whitleys framework, which concerns the articulation of social capital in business networks (Anderson and Jack, 2002). Granovetter has made a distinction between structural and relational social capital (Granovetter, 1992). Structural social capital refers to social interactions, meaning the sum of relationships, while the relational dimension concerns the nature of the actual relationships including trust and trustworthiness.⁴ Trust is thus a keyword for the analysis of personal networks. Trust in this respect can be defined as the willingness to subordinate individual desires to group objectives through vulnerability (Leana & Van Buren, 2009; Jack and Andersen, 2001).

In the case of the REASC syndicate the search arena had three important characteristics. When Glückstadt initiated the formation of the syndicate in August 1898, he contacted an existing network of bankers in Germany and Sweden with whom he had established a deeply rooted trust-relation over long time. Former financial arrangements in the bond cartels had already proven a mutual willingness to take risk and thus to vulnerability for the group objectives among these private actors. The trust – and business – relation to the Hamburg-

⁴ According to Anderson and Jack trust can be regarded as an governance principle, an attribute to the relationship in a network, while trustworthiness concerns the actors involved that is an attribute to the actors rather than the relation (Anderson and Jack, 2002, p. 197)

based banks L. Behrens & Söhne and Norddeutsche Bank in Hamburg dated back to the 1870s. Already in 1872 Glückstadt and Landmandsbanken issued the state loan for the Norwegian state in an international cooperation with Den Norske Creditbank and Christinia Bank og Kreditkasse and the following decades Glückstadt developed an international financial network for the state loans and bond issues. (Hansen & Mørch, 1997, p. 38). The relation with KA Wallenberg dated back to the formation of a “comprehensive international network” as Wallenberg formulated it in a letter in July 1888 (KAW, 20/7/1888). Ten years later the two bankers knew each other well. Before the very intensive negotiation from August 1898, there had in fact been a break of seven years in the correspondence from Glückstadt to KA Wallenberg – at least according to the KA Wallenbergs systematized archive. Glückstadt did make sure to contact KA Wallenberg already in *June* 1898 concerning a completely different matter – requesting an advice concerning the possible sale of the Diesel-patent in Norway. This might have been a coincidence but it could also be regarded as Glückstadts attempt to revitalize the relational dimension of the network before the imperative entreat concerning REASC followed few months later. It is striking that the two bankers often mentioned the name of their wife in the end of the letters. Along the same lines visits and meetings – as with Glückstadt and Heides visit to Stockholm in August 1898 – were often arranged under private circumstances. The personal approach in the interaction between Isak Glückstadt and KA Wallenberg peaked in 1906-1907 when KA Wallenberg and his wife Alice and their daughter participated in a trip to the Far East with the EAC ship *S/S Birma*. In the following years the correspondence changed from a business nature to a more social kind with several invitations for hunting, questions about the reliability of specific persons etc.

The personal relation between the two bankers was not on that interpersonal level in 1898, but a mutual trust had been established over several years already. The trustful relation was particularly important as the REASC project was highly risky and expensive. The project was marked by political and economic risks, due to the unstable and unreliable administration in Russia. Glückstadt did not possess the same close relation to the bankers in Gothenburg – Theodor Mannheimer and Olof Wijk den Yngre from Svenska Kredit AB – which rejected the proposal in a distant and formal manner, which was far from the more friendly and trustful communication between KA Wallenberg and Isak Glückstadt. Mannheimer and Wijk also had good reasons to reject the proposal. Glückstadt blamed their age, but it was also an important factor that the ship-owners in Gothenburg were directly involved in the possible formation of

a new Swedish line to South East Asia, and thus more reluctant to partner with the newly established Danish company.

The second and third phases in the formation of the consortium concerned control in particular the agreement, signed in December 1898. One of the most important features in the agreement was that possible disputes between the partners should be solved by a self-orchestrated arbitration. The detailed terms concerning duration, payments and lodges of the shares would be presented by Glückstadts bank connection in St. Petersburg – St. Petersburger Internationalen Handelsbank. The five partners in the consortium in other word signed an agreement without many explicit descriptions on the formal conditions (see appendix 1). The level of trust between the partners was apparently so strong, that it was possible for Glückstadt to organize the consortium under severe time pressure – from August to December 1898 and with only limited knowledge about the actual nature of the Russian business, the conditions for the emission of the shares and the payment and even the duration of the agreement.

In that respect the REASC seemed to be an almost archetypical example of a personal network-based particularistic international business agreement of the first globalization, which confirmed that the partners already knew each other, trusted one another and thus were able to conduct business in highly uncertain environment despite the lack of formal institutions for cross border transactions.

Appendix 1

Consortium, contract, November 24th, 1898

Part of the takeover is:

- Danske Landmansbank, Hypothek og Vekselbank, Copenhagen
- Privatbank i Kjöbenhavn, Copenhagen
- Stockholms Enskilda Bank, Stockholm
- L. Behrens & Söhne, Hamburg
- Norddeutsche Bank in Hamburg, Hamburg

Namely, every party mentioned above takes 1/5 of the total sum of the takeover.

The takeover rate is 100% -one hundred percent-

The around 3 million Rubel = 6 million kroners

Shares must be introduced at the Sankt Petersburg's stock market and the St. Petersburger Internationalen Handelsbank in Sankt Petersburg must collectively conduct the sale on the account of the consortium.

The further clauses regarding

1. Duration of the consortium
2. The payments to make by the consortium
3. The lodge of the shares
4. The date of emission and the course of emission

will be preconcert with the St. Petersburger Internationalen Handelsbank, St Petersburg. If dissensions occur, those must be solved by an arbitration without possibility to recourse to legal action. Each party appoints one referee. If the appointed referees will not come to an agreement, they must elect a commercial chairman. If they cannot agree on a chairman, they have to let the president of the maritime and commercial court in Copenhagen appoint a chairman. The parties obey the decision of the so appointed chairman unconditionally and unimpeachable.

Copenhagen, the 24th November 1898

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