**Booming business in colonial Indonesia: Corporate strategy and profitability during the 1920s**

J. Thomas Lindblad (Leiden University)

*Paper for the 23rd Conference of the International Association of Historians of Asia, Alor Star, 23-27 August 2014*

Preliminary version. Please do not quote without permission.

Contact: thomaslindblad@hotmail.com

**Introduction**

Colonial Indonesia was widely known as a highly profitable undertaking, especially for Dutch private capital during the early decades of the twentieth century. The 1920s in particular saw a spectacular expansion of export production in the Indonesian archipelago, often rendering handsome returns for shareholders in the Netherlands. Examples are easily found. Royal Dutch, which was a worldwide concern with its base in the Netherlands Indies, paid out dividends at a rate of 24 per cent annually during four selected years in the period 1920-1930, or, in money terms expressed, 144 million guilders per year.[[1]](#footnote-1) On a far more modest scale, at any rate with regard to actual amounts paid, we found two small agricultural enterprises, Santosa Cultuur-Maatschappij and Watotoelis-Poppoli Cultuur-Maatschappij, that turned out dividends averaging respectively 126 and 86 per cent per year during the very same four years in the period 1920-1930. Considering a total issued equity of respectively 1 and 1.2 million guilders vested in these companies, such dividend payments were truly impressive, albeit only in a relative sense. But how well do the lavish payments at Royal Dutch and the comfortable incomes pocketed by the owners of Santosa and Watotoelis-Poppoli represent the conditions at large prevailing in corporate business in colonial Indonesia at the time? That is the quest which this paper reports on.

 A first prerequisite to gain a fuller understanding of financial returns to private firms in late-colonial Indonesia period is to have access to detailed data on the entire world of corporate business in the colony. This is achieved by consulting an annual directory of business firms in the then Netherlands Indies. The directory offers a near-complete coverage of enterprises owned and managed by Europeans or by Chinese residents.[[2]](#footnote-2) The subsequent data set provides detailed information on the following variables: full company name, year of incorporation, location of headquarters, issued equity capital, dividend rate, some indications of activities and locations of operations, names of directors.[[3]](#footnote-3) This permits us to systematically link profitability, as measured by dividend rates, to different types of business activity.

 An additional prerequisite when analyzing boom time performance is to enlarge coverage to several years rather than just focusing on one single moment. The era of the 1920s is for present purposes defined as the synthesis of information concerning four individual years: 1920, 1925, 1926 and 1930. It is expected that the inclusion of intervening years, 1921-1924 and 1927-1929, would not render new insights in proportion to the efforts involved in expanding the data set by several more years.[[4]](#footnote-4)

 Annual dividend rates form the best available approximation of profitability when seeking to cover the entire world of business, an endeavour which obviously precludes an in-depth analysis of the accounting records of literally thousands of individual firms. However, dividend rates remain a proxy, at best, and a few caveats are in order. Dividends are likely to understate actual profitability to the extent that part of the profits are re-invested in the company rather than used for payments to shareholders. Conversely, dividends may overstate actual profitability if being paid out of accumulated reserves in order to satisfy shareholders; this is very much a management decision. In addition, dividends are calculated as a percentage of equity capital issued some time ago. The market value of the shares may have increased or declined substantially in the meantime. As a convenient yardstick we may refer to the rate of return considered normal for stocks, at the time 6 per cent annually.

 The international literature on imperialism has seen a great deal of controversy about the question how profitable investment by private capital in the colonies was. This is an area where stereotypes and preconceived ideas are rampant. Serious scholarly work has focused on British imperialism in particular, generally seeking to offset gains for private capital against outlays by the metropolitan colonial power.[[5]](#footnote-5) Some earlier studies have touched briefly on the case of late-colonial Indonesia,[[6]](#footnote-6) Yet, the present paper is the first attempt to address these issues in a comprehensive fashion relying on a wealth of detailed firm-specific information.

 The paper contains two sections. The first one offers a wider context in which matters of profitability can be discussed. It is an overview of incorporated private business firms operating in colonial Indonesia between 1920 and 1930. The second section brings us closer to the topic of profitability, using dividend rates as the only readily available proxy variable. Attention is given to management strategies as inferred from dividend policies pursued.

**I The world of ordinary business**

The business community in colonial Indonesia comprised literally thousands of individual private firms, most of them tiny with operations confined to the immediate neighbourhood. Yet some were of substantial size assuming a leading position within their branch of industry.[[7]](#footnote-7) The world of corporate business was by definition confined to companies that had been incorporated under Dutch law, which effectively rules out virtually all enterprises owned and managed by indigenous Indonesians. The scope of our analysis is restricted to private companies incorporated in this fashion. It does not include private enterprises set up in a different way or firms owned by the state.

 By all yardsticks, the 1920s saw an impressive economic expansion in colonial Indonesia. Rapid inflation during the immediate aftermath of the First World War pushed the total value of exports above the unprecedented level of 2 billion guilders when expressed in current prices, which, however, amounted to significantly less when measured by constant 1913 prices. A short dip in 1921/22 was followed by a relatively stable high level of total exports at some 1.5 billion guilders, again in current prices and corresponding to about one-half in constant prices. The momentum of expansion was by and large retained up to 1930.[[8]](#footnote-8)

*Table 1. Numbers of incorporated private business enterprises in the Netherlands Indies in 1920, 1925, 1926 and 1930.*

 1920 1925 1926 1930 no. % no. % no. % no. %

Banking 50 1 45 1 40 1 33 1

Agricultural firms 1281 34 1111 32 1062 32 1025 36

Trading 1073 29 1113 32 1064 32 906 32

Mining 173 5 97 3 95 3 93 3

Insurance 40 1 47 1 47 1 74 3

Other 1120 30 1085 31 972 30 727 25

Total 3737 100 3498 100 3280 100 2858 100

Source: *Handboek*, issues 1920, 1925, 1926, 1930.

 The booming economy of colonial Indonesia in the 1920s, driven by exports, is reflected in sheer numbers of incorporated business firms (Table 1). The very large number in 1920 reflects widespread optimism in the international economy immediately after the end of the First World War. Yet the general upsurge in numbers was followed by a contraction and by 1925 the total number of companies was 6 per cent lower than in 1920. The downward tendency was reinfored in the second half of the 1920s and by 1930 the corporate world of colonial Indonesia numbered almost 900 less individual companies than in 1920, a reduction by one-quarter over the decade.

 Why did numbers of firms keep contracting throughout a sustained economic boom such as in the 1920s in colonial Indonesia? In the first place, numerous new enterprises were set up in a mood of excessive enthusiasm in or just before 1920, but they failed to prove viable already within a few of years. Secondly, economic expansion is likely to foster a process of corporate consolidation, resulting in fewer individual entities without total capital committed being reduced.

 The two main categories of firms were officially designated as either agricultural enterprises or trading companies.[[9]](#footnote-9) Each accounted for about one-third of all incorporated firms in any of the four years surveyed during the period 1920-1930. Companies in banking, mining and insurance were also separately identified, but these three categories accounted for only a tiny proportion of the total number.[[10]](#footnote-10) The remainder, a sizeable proportion of almost one-third in each of the surveyed years, consisted of a highly diversified agglomeration of individual companies in services and manufacturing.

 A word of caution is in order with regard to the identification of economic activities of individual firms. Designations such as ‘agricultural’ (*cultuur*) and ‘trading’ (*handel*) enterprises were part of the official name of the company, but these labels do not necessarily very well reveal the type of activities undertaken. Firms were prone to legally define a wide scope of possible activities, where actual pursuits could easily fit in. To determine the sectoral composition with greater precision, we need to supplement those general firm designations with some additional information given in the source. Such an exercise becomes particularly relevant in the context of analyzing levels of profitability (see the next section).

 An overwhelming majority of the incorporated firms cited a location of headquarters in the Netherlands Indies, but a fair number chose a seat of management in the Netherlands. Yet, it is hazardous to draw far-reaching implications from this choice between the colony and the metropolitan mother-country. A seat of management in the Netherlands Indies may suggest a higher degree of local entrenchment, but this need not be the case if shareholders were Dutch and lived in the Netherlands. Similarly, headquarters in the Netherlands carry the implication that all management decisions of importance were taken far away from the production site in the colony, which, again, need not fully conform to reality.

 The most popular locations for headquarters in colonial Indonesia were, in that order, Batavia, Surabaya, Semarang, Bandung and Medan. Among the top five, four were in Java and one in Sumatra. Most favoured for headquarters in the Netherlands was Amsterdam, followed at some distance by The Hague and Rotterdam. The sole important exception to the tendency of management to be housed in the Netherlands Indies or the Netherlands was the 150 odd British firms, almost all holding main office in London.

 Nationality is commonly applied as an important variable in studies of foreign direct investment and its impact on receiving economies. In this case, however, the distinction between ‘Netherlands’ and ‘Netherlands Indies’ is not one of nationality since Dutchmen living in the colony were Dutch citizens and not, like indigenous Indonesians or Chinese residents of the colony, Dutch subjects without rights of citizenship. With respect to nationality, we can only safely attach the label ‘Dutch’ to firms with headquarters in the Netherlands. Conversely the label ‘non-Dutch’ can only without doubt be affixed to either companies with headquarters in a third country (usually the United Kingdom) or firms owned by Chinese residents of the colony.[[11]](#footnote-11)

 The corporate world of business of colonial Indonesia was of relatively young age. A vast majority (84 per cent) of all incorporated firms in operation in 1920 were less than twenty years old and as much as 57 per cent of the total dated from the preceding decade (Table 2). By 1925, both firms founded in the first decade of the twentieth century (then aged 15-25 years) and those from the 1910s (aged 5-10 years) still occupied the largest slice of all firms, yet their combined proportion had now dropped to about two-thirds. This tendency was reinforced in the second half of the 1920s, producing a situation by 1930 in which firms surviving from the 1900s and 1910s (by then aged 10-30 years) accounted for scarcely more than one-half of the total. Very young firms (less than 10 years) made up one-third of the total world of incorporated business in the colony in 1930.

 The statistics on the date of incorporation of firms are particularly interesting since they are available for practically all individual companies. The figures render support to the idea that the total business community shrank in absolute size during the 1920s because of failure of newly founded enterprises set up in undue optimism and a tendency towards consolidation and merger. The survival rate of private companies in the 1920s was inversely proportional to age: firms dating from the nineteenth century survived to a higher degree compared to firms of younger vintage. Out of the many companies set up in the 1910s and recorded in 1920, less than one-half were still operating at the end of the decade. Also during the boom decade itself, many new firms saw the light, including almost 300 that all dated from 1920 alone and still were alive five years later.

*Table 2. Period of foundation of incorporated private business enterprises in the Netherlands Indies in 1920, 1925 and 1930.*

 1920 1925 1930 Survival rate no. % no. % no. % 1920/30

Before 1890 143 4 128 4 120 4 84

1890s 378 10 277 8 221 8 58

1900s 1013 27 715 20 508 18 50

1910s 2119 57 1504 43 960 34 45

1920s 4 0 789 23 994 35

Unknown 80 2 85 2 55 2

Total 3737 100 3498 100 2858 100

Source: *Handboek*, issues 1920, 1925, 1930.

 Total private capital committed to business activities in the colony may be approximated using issued equity as stated for most incorporated companies. A caveat needs to be made since reinvested profits and loans may also have been used for outlays at private corporations in the colony. Total equity is therefore likely to be an underestimation of the actual situation. The interpretation of the current value of equity issued in the past is also a matter of dispute. Yet, no other statistical data are available and previous research has shown that global aggregates deriving from this source by and large conform with international estimates made at the time of the Second World War.[[12]](#footnote-12)

 Despite the sustained tendency towards a shrinkage of the corporate world in the colony, combined equity of the companies increased over time, from 2.8 billion guilders in 1920 to about 4 billion in 1925/26 and further to 4.4 billion guilders in 1930.[[13]](#footnote-13) The increase amounted to as much as 40 per cent in the first half of the decade, but only 11.5 per cent during the second half. The enlargement of committed investment by private firms in the colony testifies to the high degree of optimism during the initial years of the boom.

 The juxtaposition of declining absolute numbers of firms and an increasing total equity capital translated as a steady rise in the average size of the individual firm, from 760,000 guilders in 1920 to 1.2 million in 1925 and 1.5 million in 1930. Such averages reflect the extreme diversity within the corporate world of business embracing both very large concerns and very tiny local firms.

 The top five accounted for an impressive share of the total, 16 per cent in 1920 and 20 per cent in both 1925 and 1930. Number one was continuously BPM (Bataafsche Petroleum-Maatschappij, Batavian Petroleum Company), a joint subsidiary of Royal Dutch and Shell, with an equity rising from 210 million to 300 million guilders in the early 1920s. The top five always included the colony’s largest bank, NHM (Nederlandsche Handel-Maatschappij, Netherlands Trading Association), where equity climbed from 100 million to 150 million guilders. Another bank, NIHB (Nederlandsch-Indische Handels Bank, Netherlands Indies Trading Bank), ranked third in 1920 and fifth in 1930, and reported an increase of its equity capital over time from 60 million to 100 million guilders. Shipping companies were prominently present among the top five, notably the Nederlandsche Scheepvaart Unie (Netherlands Shipping Union), which ranked fourth in 1920 and 1925 and third in 1930; meanwhile equity capital rose threefold from 50 million to 150 million guilders. Another major player in international shipping, the Vereeniging van Nederlandsche Scheepvaart-Maatschappijen (Association of Netherlands Shipping Companies), was created in 1920 with a capital of 200 million guilders, appearing in the second rank in 1925 as well as in 1930.

 Some key features of the world of ordinary business in the Dutch colony during the booming 1920s may be summed up as follows: a large, but shrinking number of incorporated firms, rising total and average amounts of equity capital committed, a strong predominance of Dutch management, vital oldtimers and much optimism, on occasion causing disappointment.

**II Proper gain or colonial drain?**

There is, as mentioned above, a stubborn popular conception that investment in the colonial context offered excessive profits that were drained away from the region, where the economic activities were actually taken place, by implication offering hardships rather than prosperity for the local population. This paper cannot provide a comprehensive assessment of the impact of foreign investment in the colonial situation.[[14]](#footnote-14) It can, however, offer an impression of levels of profitability as derived from the empirical data at our disposal, whilst also seeking to make some tentative inferences about management strategy from dividend policies pursued by individual firms. The rate of paid-out dividends serves as a proxy variable for profitability, ahtough it is, again, emphasized that it is a far from perfect measure with possibly built-in biases towards both overestiamted and underestimation. At the same time, it needs to be conceded that dividend rates are readily available for large numbers of companies and also lend themselves for a comparison with standard yardsticks, in particular the 6 per cent dividend shareholders were likely to consider as a ‘normal’ return on their capital.

 A discussion of profitability levels over a certain perioed of time benefits from access to information about several years rather than one isolated instance that could possibly have been a moment of exceptional circumstances. Therefore, averages presented here are based on dividend rates paid out at four different points in time: at the inception of the boom in 1920, halfway through the boom decade (1925 and 1926) and when the boom’s end was drawing near in 1930. By implication, averages do not apply to a specific year but to the period at large. Averages were calculated for each individual company that in one or more of the four years figured in the annual directory. A composite data set comprising all such firms was constructed, offering a ficticious representation of the world of business during the period as a whole. This data set is obviously larger than the agglomeration of business firms in any single year.

 Profitability is known to vary considerably across branches of industry and it is vital for our purposes to link average dividend rates with types of economic activity. A more precise identification of activities undertaken was needed than the one suggested by general designations as an ‘agricultural’ or a ‘trading’ company. This involved drawing on additional information given in the brief entry for each individual company in the source.[[15]](#footnote-15)

 Apart from the conceptual issue of using dividend rates as a proxy for profitability, there is also a matter of source interpretation that requires attention. In many cases, the source does not cite any dividend rates. This can have one of two reasons. Either management decided, for whatever reason, to forego payments that year, or failed to supply this information to the compilers of the directory. Without diving into the accounts of individual firms, it is impossible to differentiate between these two possibilities. For that reason, averages couold only be calculated for non-zero dividends. A second, smaller data set was distilled from the fictious large one based on whether the individual firm did report a dividend in excess of zero. It is compared here to the larger data set with all firms appearing at one stage or another.

*Table 3. Incorporated firms in colonial Indonesia in the 1920s by dividend reporting and economic activity.*

 Individual firms Reporting dividends Proportion no. average size no. average size reporting (thous. gld.) (thous. gld.) (%)

Agriculture 1828 1204 482 2537 26

Manufacturing 285 527 27 1954 9

Mining 214 3118 29 18049 14

Finance 179 3895 78 7603 44

Services 592 318 48 1600 8

Trading 1308 391 95 2505 7

Other 937 1120 114 5121 12

Total 5343 1054 873 3725 16

Note: Individual firms = all incorporated companies listed in 1920, 1925, 1926 and/or 1930. Dividends = non-zero dividends reported. Size indicated by issued equity capital at the last moment of listing in the 1920s.

Source: *Handboek*, issues 1920, 1925, 1926, 1930.

 The total number of firms that could have paid out dividends in the 1920s consists of the 3737 firms listed in 1920 plus another 1606 incorporated in the course of the decade, in total 5344 individual companies. About one-third consisted of agricultural enterprises, many of which were specifically targeting key export crops, such as rubber (373), tea (126), sugar (113), tobacco (67) and cinchona (26). Trading companies made up another one-fourth of the total, and commercial services, including construction and real estate, accounted for about one-tenth. Mining included petroleum (66 firms), whereas finance combined banking with insurance and other credit institutions. The highly diversified category here labelled ‘Other’ included companies in all kinds of transport (268), public services such as electricity (153), printing and publishing (137) as well as hotels (130), ice factories (98), pharmacies (58) and cinema’s (37).

 Not more than about one firm in six reported non-zero dividends (16 per cent). It is highly unlikely that 84 per cent of all firms in operation in colonial Indonesia at one or more of the moments of observation would have failed to make enough profit to pay out any dividend at all to shareholders. It is probable that many of these firms reinvested profits instead of transferring funds to shareholders who by and large were overseas. Evidence suggests that this applied in particular to firms owned by Chinese residents of the colony. We can only conclude that the available information on dividends does not permit an absolute estimate of the total volume of profit made in the 1920s in colonial Indonesia. In relative terms, however, non-zero dividend rates may offer an approximation of prevailing levels of profitability.

 The composition by branch of economic activity looked different among firms reporting dividends compared to those that in principle could have done so. The proportion of agriculture was higher (55 against 34 per cent), but the share of trading firms was lower (11 against 24 per cent). This was reflected in a higher than average proportion reporting in agriculture and precisely the opposite in trading. The best score in reporting dividends was achieved in finance, whereas manufacturing and commercial services were below average.

 An important difference between the population of all individual companies and those reporting dividends concerns firm size.[[16]](#footnote-16) Firms reporting dividends were on average more than three times as large as those that did not. This holds true for all seven categories of economic activity identified here. It was particularly pronounced in mining, where oil giant BPM exerted a strong upward push on average equity for the sector as a whole. The difference in firm size between those reporting dividends and those failing to do so conveys a profound difference in terms of management strategy. Larger firms had a responsibility towards shareholders, often a whole host of them, whereas smaller ones were more inwardly oriented and often family-owned.

 The overall average dividend rate calculated here and representing the boom decade of the 1920s at large was spectacularly high, 12.6 per cent. This amounted to twice as high a return on invested capital than what would conventionally be expected by people holding shares. But this high rate is most certainly a gross overestimation considering that, for reasons explained, no zero dividends could be included in the calculation. This statistic is not robust enough to support the argument that a colonial drain took place from the Netherlands Indies to the Netherlands in the sense that far more profits were transferred overseas than would seem warranted as a ‘normal’ return on invested capital.

*Table 4. Average dividend rates paid out by incorporated companies in colonial Indonesia in the 1920s, by economic activity.*

 Average Top rank Bottom rank

 (%) Branch Average Branch Average

Agriculture 15.7 Sugar 23.4 Rice 3.3

Manufacturing 7.5 Machines 6.7 Wood 5.1

Mining 14.4 Mining 15.1 Petroleum 13.2

Finance 9.7 Insurance 12.4 Banking 6.8

Services 7.4 Construction 8.6 Real estate 7.3

Trading 8.2

Other 8.0 Public service 13.2 Ice factories 5.1

Total 12.6

Note: Average dividend rate = average of non-zero dividends reported in 1920, 1925, 1926 and/or 1930. Branch-specific averages only calculated when the branch included five or more individual firms. There was noo ranking for heterogenous branches labelled ‘various’. No separate branches were identified in trading.

Source: *Handboek*, issues 1920, 1925, 1926, 1930.

 Nevertheless, the mass of data on actual dividend rates do enable us to spot interesting differences by across type of economic activity (Table 4). Best returns for shareholders were pocketed in export agriculture, especially in sugar, and also in mining. Rates were lower, yet by all means satisfactory, in finance, in particular in insurance, and in trading. Manufacturing and commercial services scored less, not far from the 6 per cent standard. Among commercial services, construction did it better than real estate. Rates of return were mostly moderate in the assorted types of business, here labelled ‘Other’, with only public services forming a notable exception to the rule.

 It is convenient to differentiate also by level of rates, using cut-off points at average dividend rates of respectively 5, 10, 25 and 50 per cent, as calculated over the four years observed (Table 5). . Very high dividend rates at 25 per cent or more per year were paid out by one firm in seven, but the rest was evenly distributed over the three categories carrying a lower rate of dividend payment. The average within the category of 10 to less than 25 per cent rates was two full percentage points above the overall average, whereas the average for rates between 5 and 10 per cent was only marginally above the conventional 6 per cent norm.

*Table 5. Size distribution of incorporated firms reporting non-zero dividend in colonial Indonesia in the 1920s.*

Dividend rate Firms reporting Average Issued equity

 dividends dividend (thous. guilders)

 No. Share (%)

Less than 5 % 238 27 2.7 2432

5 - < 10 % 256 29 6.9 4006

10- < 25 % 263 30 14.6 5308

25 - < 50 % 91 11 33.3 2453

50 % and above 25 3 68.1 1172

Total 873 100 12.6 3725

Source: *Handboek*, issues 1920, 1925, 1926, 1930.

In general, as noted above, firms reporting dividends were of a larger size than those not reporting. Yet, this does not imply that there was a systematic relationship between firm size and dividend rate level among the 873 firms for which dividend rates were reported. The largest on average were firms paying between 10 and 25 per cent; the single largest corporation in the colony, BPM, paid out an average of 23 per cent over the four years observed. Other large companies, notably in shipping and banking, paid less, 7-10 per cent on aveerage, but the largest agricultural enterprise, Amsterdam Rubber-Maatschappij, achieved an average of 15 per cent. By contrast, the smallest size was recorded for firms turning out spectacularly high annual dividends at 50 per cent or more, including the tea estate Santosa and the agricultural enterprise Watotoelis-Poppoli mentioned at opening of this paper. On the other hand, the smallest firms, the ice factory Kaliangan in Batavia and the trading company Boeroe in Surabaya, with an equity of merely 1000 guilders each, only paid dividends oscillating around a 5 per cent average. In conclusion, this analysis does not, or not yet, bring to light any systematic relationship between size and profitability, measured as respectively issued equity capital and average dividend rate of time.[[17]](#footnote-17)

 Management strategies can only be inferred in an indirect way from dividend policies pursued. There is always a fundamental trade-off between satisfying shareholders, possibly with an eye to attracting fresh capital, on the one hand and on the other reinvesting profits and facilitate expansion without having to transfer funds from overseas. The choice between these two options, if at all possible, may reveal the time horizon applied by management: gain in the short run versus commitment for the long term. Considering the apparent stability of Dutch colonial rule in the Netherlands Indies, we may safely assume that foreign investors, whether Dutch or from third countries, were likely to view developments in a long-run perspective. Even if reported dividend payments fail to do full justice to the complete picture, the evidence does demonstrate that there was scope for both short-run gains and long-run commitments during the boom of the 1920s.[[18]](#footnote-18)

 Consistency is important in management decisions. Strikingly often dividend rates calculated over several years produced neat averages at rounded numbers. A few examples may suffice. Eight firms reported an average of exactly 35 per cent, including the Bandung cinchona factory, whereas nine firms reported an average at 10 per cent less, exactly 25 per cent; here examples inbclude the tin mining company Billiton and Bandung Electricity. Fifteen individual firms stuck to the precise average of 15 per cent on an annual basis; amongst them were the trading concern Internatio and Senembah Tobacco in the Deli estate area in North Sumatra. No less than 29 firms opted for dividend rates generating an average at exactly 10 per cent, including the ice factory in Jombang (East Java) and the copra-based manufacturer Insulinde, known for getting into financial difficulties in the early 1920s.[[19]](#footnote-19) The conventional standard rate of 6 per cent was chosen by 23 companies, including the port warehouse corporation Blaauwhoedenveem, whereas no less than 47 firms reported dividends averaging exactly 5 per cent over the four years observed. The latter group of companies was highly diverse, embracing the Braat machine factory in Tegal (West Java) as well as United Tamiang Rubber and the Brastagi Hotel, both in North Sumatra.

 Consistency in dividend policies also contained a time element. Among the 873 firms reporting non-zero dividends, as many as 617 figured in the registration of corporation in all four years observed, 1920, 1925, 1926 and 1930. Another 114 firms were present in three out of four years. By implication, only a minority was included in the annual directory only once (90 firms) or twice (52 firms). [[20]](#footnote-20) The average dividend rate paid out by firms always present was especially high, 13.8 per cent, and impressive for firms present in three years (8.5 per cent) and those appearing twice (8.1 per cent). At 12.8 per cent, the corresponding figure for firms with only one citation in the four years was strikingly high, too.[[21]](#footnote-21)

 Impressive dividend rates, to the extent recorded in the first place, marked differences by type of economic activity, little connection between dividend rates and firm size – these were some features of dividend policies as pursued by incorporated companies in colonial Indonesia during the boom decade if the 1920s. There are indications suggesting a high degree of consistency in underlying management strategies, but this is an area where more scrutiny of individual company records is called for.

**Conclusion**

The 1920s were a good time to do business in colonial Indonesia. There need not be any doubt about that. Sure signs were a rapid expansion of foreign private capital in the Netherlands Indies and tendencies towards concentration and survival of the fittest. The expansion facilitated an enlargement of productive capacity, which became increasingly necessary towards the end of the decade as falling prices in the world market prompted producers in colonial Indonesia to seek compensation in larger volumes.[[22]](#footnote-22) Another sure sign of boom times was found in spectacular and widely publicized rates of dividend payments accruing to overseas shareholders. Dividend rates paid out by numerous companies were indeed impressive, calculated as averages applying to the boom decade at large. Due to data limitations, however, it remains hazardous to draw far-reaching inferences with respect to the entire corporate world of business, let alone the relationship between colony and metropolitan mother-country.

 But success was not guaranteed everywhere. Some sectors and branches of industry attracted more capital and generated more profits than others. Sugar, mining (including oil), insurance and electricity companies stand out as the best bet for investors, whereas others, such as manufacturing, banking, construction, real estate and – to cite just one of the smaller branches – ice factories did not deliver returns much different from the conventional 6 per cent shareholders expected to get.

 Management strategies of different types hid behind dividend policies. Many small firms failed to report any dividend payments at all, possibly because they were family-owned and did not owe anything to outside investors. By contrast, some small firms paid out lavishly; they were most likely undercapitalized. Some large firms made huge dividend payments, others did not, which only underscores the lack of a systematic relationship between size and profitability among firms reporting dividends in the first place. Dividend policies displayed a certain tendency towards consistency, both with regard to actual rates and over time. The classical trade-off between short-run gain and long-run commitment in management strategy did not play a role. The 1920s were good enough to allow the two to co-exist.

**Bibliography**

Cain, P.J. and A.G. Hopkins, *British imperialism, 1688-2000* (Harlow: Longman, 2002).

Davis, Lance E. and Robert A. Huttenback, *Mammon and the pursuit of Empire; The political economy of British imperialism, 1860-1912* (Cambridge: Cambridge University Press, 1986).

Dick, Howard, Vincent J.H. Houben, J. Thomas Lindblad and Thee Kian Wie, *The emergence of a national economy. An economic history of Indonesia, 1800-2000* (Crows Nest, NSW: Allen & Unwin, 2002).

Eng, Pierre van der, *The ‘colonial drain’ from Indonesia* (Canberra: Research School of Pacific and Asian Studies, Australian National University, 1993).

*Handboek voor cultuur- en handelsondernemingen in Nederlandsch-Indië* (Amsterdam: De Bussy, 1888-1940).

Kamerling, R.N.J., *De N.V. Oliefabrieken Insulinde in Nederlands-Indië: Bedrijfsvoering in het onbekende* (Franeker: Wever, 1982).

Jonker, Joost and Jan Luiten van Zanden, *A history of Royal Dutch Shell; I. From challenger to joint industrial leader, 1890-1939* (Oxford: Oxford University Press, 2007).

Lindblad, J. Thomas, `Het bedrijfsleven in Nederlands-Indië in het Inter­bellum’, *Economisch- en Sociaal-Historisch Jaarboek* 54 (1991) 183-211.

Lindblad, J. Thomas, *Foreign investment in Southeast Asia in the twentieth century* (London: Macmillan, 1998).

Lindblad, J. Thomas, *Bridges to new business. The economic decolonization of Indonesia* (Leiden: KITLV Press, 2008).

Lindblad, J. Thomas, ‘British business and the uncertainties of early independence in Indonesia’, *Itinerario*,37: 2 (2013) 147-164.

Maddison, Angus, ‘Dutch colonialism in Indonesia: A comparative perspective’, in: Anne Booth, W.J. O’Malley and Anne Weidemann (eds), *Indonesian economic history in the Dutch colonial era* (New Haven: Yale University Press, 1990) 322-335

1. All firm-specific information in this paper stems from the data set described below. For Royal Dutch, see further Joost Jonker and Jan Luiten van Zanden, *A history of Royal Dutch Shell; I. From challenger to joint industrial leader, 1890-1939* (Oxford: Oxford University Press, 2007). [↑](#footnote-ref-1)
2. *Handboek voor cultuur- en handelsondernemingen in Nederlandsch-Indië* (Amsterdam: De Bussy, 1888-1940). For this paper, the issues for the years 1920, 1925, 1926 and 1930 were consulted. Regrettably, the directory includes scarcely any indigenous firms. [↑](#footnote-ref-2)
3. The data set was prepared by my student assistants Thomas de Greeve and Jelmer Puylaert. I am greatly indebted to both of them for their zealous efforts in constructing the data set. [↑](#footnote-ref-3)
4. A more comprehensive survey would need to include also years before and after the actual boom period. In a forthcoming publication, I hope to extend the analysis to the years 1915 and 1935. [↑](#footnote-ref-4)
5. Pioneering works in the international discourse include Lance E. Davis and Robert A. Huttenback, *Mammon and the pursuit of Empire; The political economy of British imperialism, 1860-1912* (Cambridge: Cambridge University Press, 1986) and P.J. Cain and A.G. Hopkins, *British imperialism, 1688-2000* (Harlow: Longman, 2002). [↑](#footnote-ref-5)
6. Angus Maddison, ‘Dutch colonialism in Indonesia: A comparative perspective’, in: Anne Booth, W.J. O’Malley and Anne Weidemann (eds), *Indonesian economic history in the Dutch colonial era* (New Haven: Yale University Press, 1990) 322-335; J. Thomas Lindblad, `Het bedrijfsleven in Nederlands-Indië in het Inter­bellum’, *Economisch- en Sociaal-Historisch Jaarboek* 54 (1991) 183-211; Pierre van der Eng, *The ‘colonial drain’ from Indonesia* (Canberra: Research School of Pacific and Asian Studies, Australian National University, 1993). [↑](#footnote-ref-6)
7. Regrettably, the primary source used here does not give any information on employment at the individual enterprise. This kind of information would be indispensable in order to be able to measure the macro-economic impact of each firm’s activities. [↑](#footnote-ref-7)
8. Howard Dick, Vincent J.H. Houben, J. Thomas Lindblad and Thee Kian Wie, *The emergence of a national economy. An economic history of Indonesia, 1800-2000* (Crows Nest, NSW: Allen & Unwin, 2002) 124. [↑](#footnote-ref-8)
9. Cf. the very title of the directory used as main source for this paper: *cultuur- en handelsondernemingen*, literally ‘agricultural and trading enterprises’. [↑](#footnote-ref-9)
10. Insurance firms inexplicably went against the general trend towards contraction and even increased in number in the second half of the 1920s. [↑](#footnote-ref-10)
11. In a separate future publication, I hope to discuss Chinese-owned firms in colonial Indonesia in some detail. [↑](#footnote-ref-11)
12. J. Thomas Lindblad, *Foreign investment in Southeast Asia in the twentieth century* (London: Macmillan, 1998) 14. [↑](#footnote-ref-12)
13. Equity capital given in other currencies was converted into Dutch guilders using foreign exchange rates prevailing under the Gold Standard. With this procedure, there is inevitably a risk of double-counting because of crossholdings of shares. For that reason, Royal Dutch as the owner of huge subsidiaries in the colony was left out. Inclusion of Royal Dutch would have inflated total equity by 600 million guilders, of which 300 overlapped with its main subsidiary in the Netherlands Indies and another 300 accrued to subsidiaries outside Indonesia. [↑](#footnote-ref-13)
14. For an exploration of the possibilities of such an analysis, see the contribution by Frank Ochsendorf and Mark van de Water to the IAHA conference at Alor Star, Malaysia, 23-27 August 2014. [↑](#footnote-ref-14)
15. Additional information was drawn from the unique firm name and elaborations in the accompanying text. [↑](#footnote-ref-15)
16. Calculations of average equity were based on 5186 firms (97 per cent) for the larger population of all firms observed in the 1920s and 860 firms reporting non-zero dividends (98.5 per cent). In both cases, Royal Dutch was left out to avoid an overlap with its subsidiary BPM. [↑](#footnote-ref-16)
17. Regression analysis produced a coefficient of correlation of 0 for all firms reporting dividends (873 cases) as well as for agricultural firms (482 cases) and trading firms (95 cases). [↑](#footnote-ref-17)
18. Elsewhere I discuss the issue of time horizons in management strategy at individual firms operating under changing conditions immediately after Indonesian independence. See J. Thomas Lindblad, *Bridges to new business. The economic decolonization of Indonesia* (Leiden: KITLV Press, 2008) 158-161; J. Thomas Lindblad, ‘British business and the uncertainties of early independence in Indonesia’, *Itinerario*,37: 2 (2013) 147-164. [↑](#footnote-ref-18)
19. See further R.N.J. Kamerling, *De N.V. Oliefabrieken Insulinde in Nederlands-Indië: Bedrijfsvoering in het onbekende* (Franeker: Wever, 1982). [↑](#footnote-ref-19)
20. Proportions of firms included in the larger data set, consisting of all companies appearing in one or more of the four years observed, were significantly higher for firms appearing only once (36 per cent against 10 per cent), twice (10 per cent against 7 per cent) or in three years (22 peer cent against 13 per cent), but far lower with respect to firms present in all four years (32 per cent against 70 per cent). [↑](#footnote-ref-20)
21. This in an average calculated over firms figuring only once in the data set of firms recording dividends. It is obviously a spot figure, not an average over time for the individual firm. [↑](#footnote-ref-21)
22. Dick *et al.*, *The emergence of a national economy*, 125-127. [↑](#footnote-ref-22)