European Plantation Firms and Malaysia's New Economic Policy since 1970

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Introduction

This paper focuses on the confrontation between foreign plantation firms and the Malaysian state under the New Economic Policy since 1970. Using company archive material from one firm, United Plantations, which successfully established a new *modus vivendi*, the paper compares this case with several others for which professional business histories are also now available, and for which outcomes were different.[1]

Within the developing world, Malaysia was relatively late in adopting policies of economic nationalism, and even under the New Economic Policy developed in response to the communal riots of May 1969, the government maintained a strong aversion to forced expropriation.[2] There was space for foreign owners to negotiate, to find local allies and to co-operate with them in constructing new and sustainable systems of shared ownership and management. The paper examines how and why the strategies developed by the British agency houses differed from those of three firms which, even during the colonial period, had substantial elements of non-British ownership: the Anglo-Dutch Unilever, Franco-Belgian Socfin and Scandinavian United Plantations.

It is already well known that most of the British agency houses which had dominated the plantations sector during the colonial period chose to resist change. Some succumbed to hostile takeovers, while others adopted a strategy of reluctant compliance and gradual disengagement, making a series of deals transferring their shareholdings to Malaysian parastatals and private buyers.[3] What is less well known is that Unilever, Socfin and United Plantations continued to operate successfully with sustained European involvement until the turn of the twenty-first century. Indeed, United Plantations continues to thrive and expand with shared Asian and European ownership and top management today.

This paper will examine how and why these three firms developed more flexible strategic responses than the agency houses to the political risks posed by economic nationalism in Malaysia. Is there any link between the fact that all three had been outsiders to some degree within the British imperial economy, and the ability they showed after *Merdeka* (Independence) to balance the demands of foreign shareholders with those of a fresh range of local stakeholders? What role, if any, was played by corporate ethical values in the development of sustainable relationships with employees and their unions, communities living near plantations, new groups of Asian customers and shareholders, and the host government?

The Slow Growth of Economic Nationalism in Malaysia

During the first decade of Malaysian independence following *Merdeka* in 1957, economic nationalism had remarkably little impact on the plantations sector. Despite the publication in Singapore in 1960 of Puthucheary's powerful indictment of foreign ownership of the commanding heights of the economy, the Alliance government of Tunku Abdul Rahman maintained a *laissez-faire* approach to the private sector and developed a policy of encouraging further inward investment, especially in import-substituting manufacturing ventures.[4] The country came to be seen as a classic example of a neo-colony, not only because of the regime's continuing encouragement of foreign direct investment, but also because of its neglect of the issue of land reform and its persistent repression of trade unionism.[5]

While subsequent research has modified this view, it has by no means overturned it. White's work on the period 1942-1957 demonstrated the importance of the long-standing gulf between the British metropolitan 'gentlemanly capitalists' who determined imperial policy, and the rough-hewn traders, planters and engineers who managed businesses in Asia. As Malaya began to move towards independence in the early 1950s, it could by no means be guaranteed that the neo-colonial order would be biased towards the interests of the British agency houses in particular, rather than towards the wider interests of the sterling area and of capitalism *per se*.[6] However, more general studies of the Malayan Emergency which began in 1948, and of local politics in the era of decolonization, show persuasively how the fear of more radical change helped to draw together the European planters, tin miners, and colonial administrators on the one hand, and an English-educated local elite opposed both to communism and to trade union activism, on the other. White's work on the period 1957-1970 shows that the rapprochement between these groups continued to strengthen after *Merdeka*, fuelled by consultancies, non-executive directorships and shared sporting interests. Studies of the union movement in the same period confirm the view that it was firmly restricted and could play only a weak conciliatory role in the ongoing conflicts of interest between plantation owners and workers.[7]

Within this context Malaysia's plantations sector continued to thrive and grow, especially through the increased production of palm oil which was emerging as a profitable alternative to rubber. Following the development of the synthetic rubber industry in the 1940s and 1950s, natural rubber prices had fallen sharply, with no countervailing reduction in production costs. This point may be demonstrated with the aid of accounting data from the annual reports of United Plantations, which are available in the firm's private archives for almost the entire time series from the firm's incorporation in 1917 up to the present day. The information is sufficiently detailed to permit the calculation of contribution margins for both rubber and palm oil. In the period 1935-1939 these margins were very similar, at 55 per cent of sales revenue for rubber and 54 per cent for palm oil. However, by 1965-1969 the margin for rubber had fallen to 27 per cent. Palm oil prices were under pressure at this time, as the expansion of world and especially Malaysian supplies outpaced the growth of European demand. Yet a series of innovations in planting materials and processing methods had brought down costs to such an extent that the contribution margin remained almost as high as in the pre-war period, at 53 per cent. The profitability of palm oil production was therefore much greater than that of rubber by the late 1960s.[8]

Like their counterparts in the agency houses, United Plantations' directors had been extremely worried about political risks in Asia since the outbreak of the Emergency in June 1948. They began to accumulate stocks of British bonds and Treasury bills, amounting to just over £1 million by December 1956, and they invested funds generated from their core operations in new ventures elsewhere. A wholly-owned subsidiary was set up in southern Africa in 1950 and by 1954 the decision had been taken to transfer this asset, together with the bonds and Treasury bills, to a new firm, International Plantations and Finance Limited, which was to be owned directly by United Plantations' original shareholders and which was eventually incorporated in the Bahamas in 1957. Meanwhile, pine and citrus plantations had been established in Swaziland, and experiments were being made with bananas and cocoa in Ecuador. However, the new ventures struggled to reach sustained profitability and although citrus production continues in Swaziland, the Ecuadorean estates succumbed to repeated attacks of fungal disease and were sold off at a loss in March 1974.[9]

In 1963 Olof Grut, an engineer with extensive Asian experience, took over as Chairman at United Plantations, and the firm began to redirect its funds towards Malaysia. This strategy, implemented initially with great caution, became increasingly strong and confident as the firm's directors began to compare and contrast their experience of tolerant, stable government and economic growth in Malaysia with the growing evidence of higher political risks elsewhere. In Ecuador, the late 1960s saw mounting fiscal deficits, soaring inflation levels and frequent regime changes; incompetent government began to seem a more serious threat than economic nationalism.[10] Meanwhile, political instability and forced ownership changes began to take a startling toll on United Plantations' direct competitors in Nigeria, Indonesia and the former Belgian Congo (Zaire) – the three countries which had been world export leaders in the palm oil industry before 1960. Indonesia and the Belgian Congo had also been world leaders in research and development, pioneering the new plant breeding methods and screw presses which were later applied to best effect in Malaysia.[11]

In the period 1955-1959, Malayan exports of palm oil averaged 60 thousand tonnes per annum – a figure dwarfed by the Indonesian, Zairean and Nigerian equivalents of 120, 160, and 180 thousand tonnes respectively. Yet by 1965-1969 Malaysia had overtaken all three of these rival nations, with an annual export level of 220 thousand tonnes.[12] Indonesian production had continued to grow despite the expropriation of Dutch plantation owners in 1957-1958 and the chaotic economic policies of President Sukarno; but growth had been very slow and exports averaged just 150 thousand tonnes per annum in the later period. The fate of the industry in Africa was even worse. Exports from Zaire began to decline during the 'Congo crisis' of 1960-1965, when a bitter power struggle between the national leaders Patrice Lumumba and Joseph Kasavubu coincided with secessionist uprisings in the mining regions of Katanga and Kasai. As General Mobutu struggled to restore central government control, palm oil exports continued falling and averaged 120 thousand tonnes per annum in the period 1965-1969. Finally, in Nigeria the heavy levies imposed upon palm oil producers through export duties, Marketing Board surpluses and produce purchase taxes, together with the growth of an urban informal-sector market for palm oil, had already served to reduce annual exports to a level of 110 thousand tonnes by 1965. The outbreak of the Nigerian Civil War in 1967 effectively put an end to the export trade, which has never recovered.[13]

Pondering all these developments in the late 1960s, Olof Grut developed a deep respect for the ‘sagacious statesmanship’ and ‘inspired leadership’ of the Malaysian Prime Minister, Tunku Abdul Rahman. In his annual statements to the shareholders’ general meetings, his comments on political risk focused on external events: relations with Indonesia, Singapore, the Philippines and China; the tax implications of changes in local defence spending following the withdrawal of British and Commonwealth troops from Malaysia in 1967, and conversely, the welcome decision of Australia and New Zealand to maintain an ‘advanced defence position in Malaysia’ in 1969. The only indication of concern about economic nationalism which he gave in these public pronouncements was an acknowledgement in 1966 of the increasing government pressure for the Malaysianization of estate executives. This acknowledgement, however, was swiftly followed by a robust statement about the generally good investment climate in the country.[14]

Behind the scenes, United Plantations had already been working steadily since 1946 on the identification and development of potential senior managers from among their Asian staff. The company culture had been influenced from the start by the attitudes of the Danish founder, Aage Westenholz, and his Swedish brother-in-law, Lennart Grut (Olof’s father), who had both started their careers in Bangkok as members of an enterprising Scandinavian community which was glad to support the king in his struggle to maintain independence from both Britain and France.[15] Lennart Grut had married the daughter of the first English professor of architecture at Tokyo University, Josiah Conder, and his Japanese wife Kume Maeba. During the Second World War Olof had chosen to identify with his English rather than Japanese or Swedish roots, and had settled in Australia where he served in the Royal Australian Air Force. In October 1945 he returned to Malaya as a member of the British Palm Oil Inspection Committee and when he retired from the East in 1952, he chose to settle in Norfolk where he spent ten peaceful years as an arable farmer. Despite this evident affection for England, however, Olof continued to feel a pull towards Asia and visited the estates every year. On becoming Chairman of United Plantations in 1963 he began to spend still more time in Malaysia, and eventually returned to live in Penang where he developed close links with the Chinese community.[16]

During the Japanese Occupation several managers from United Plantations had been stranded in Malaya. Most were Danish and so were allowed to remain free initially because of Denmark’s neutral status; yet by 1943 they found themselves facing persecution and imprisonment. Three escaped and fled to the Cameron Highlands, joining a small group of fellow Danes from the Sungei Palas hillside tea estate, who had retreated to a bungalow further up the Brinchang mountain that had fortunately remained beyond Japanese control. Here they were helped with food and other supplies by the jungle-based resistance movement, and so survived the war, returning quickly in 1945 to United Plantations’ estates in the lowlands of Perak, able and willing to take up the task of reconstruction. This story has entered deeply into the company’s culture together with the life history of Harold Speldewinde, one of the young resistance fighters who helped the stranded Danes. Speldewinde joined United Plantations as its first Asian planting assistant (or management trainee) in June 1946, and quickly proved to be an effective yet relaxed leader, extremely popular with his staff, and capable of generating and implementing innovative practical ideas. He eventually rose to become the first General Manager of United International Enterprises (Malaysia) Limited, a Danish-Malaysian joint venture formed in 1987 to transform an old sugar plantation into a new palm oil estate.[17]

United Plantations' good experience with Speldewinde encouraged the firm to recruit and develop more Asian managers, and by 1965 eleven long-standing staff had been promoted to the rank of assistant, with a further group of three new recruits enrolled on a pioneering Cadet Scheme which offered them a two-year management training programme including nine months spent in Denmark. One of these recruits, Ho Dua Tiam, is now the Senior Executive Director of United Plantations.[18] For this firm, at least, the exhortations of economic nationalists to Malaysianize their management were falling on open ears. However, the process of Malaysianization was not entirely smooth. Like their agency house competitors, United Plantations found it easy to identify Eurasian, Indian and Chinese candidates for promotion and management development, but had more difficulty obtaining and retaining suitable recruits from among the rapidly growing ranks of *bumiputera* (ethnic Malay and other indigenous) secondary-school and university graduates.[19] This was soon to become a highly significant issue, with the launch of Malaysia's New Economic Policy following the inter-ethnic riots of 13 May 1969.

The New Economic Policy

The New Economic Policy, which was formally unveiled by the Department of National Unity in its directive of 18 March 1970, was nationalist mainly in the sense of promoting national unity, rather than of struggling to throw off foreign control. Its two main aims were to eradicate poverty and to restructure Malaysian society so as to reduce the divisive identification of race with economic role. However, the policy did impact upon foreign firms in a new and confrontational way through its explicit aim of enabling Malaysians to acquire a 70 per cent share in these firms' ownership by 1990, including a 30 per cent share reserved for *bumiputeras*. This was a major departure from previous policy although the ideas behind it were not altogether new. As Nick White has shown, the general idea of giving *bumiputeras* an ownership stake in Malaysia's export sector was already present in government policy well before 1970. Two *Bumiputera* Economic Congresses were held, in 1965 and in 1968, which led to the establishment of Bank Bumiputera and of Pernas (Permodalan Nasional Berhad), a national equity fund charged with investing on behalf of the *bumiputeras*. Also in 1965 and in 1968, calls were made for the takeover of British firms at the General Assembly of the ruling party, UMNO. Meanwhile Tun Abdul Razak, who was to become the architect of the new Economic Policy as head of the National Operations Council formed immediately after the 1969 riots, and who succeeded Tunku Abdul Rahman as Prime Minister in September 1970, was already developing policies favourable to *bumiputeras*.[20]

In his role as minister of national and rural development, which he took on in 1959, Tun Razak fostered a rapid growth in the amount of land allocated to FELDA smallholder resettlement schemes, which offered *bumiputeras* a share in new export-oriented agricultural ventures. This share would be paid for, month by month, through cash deductions from sales revenues. The Federal Land Development Authority, first established in 1956, had developed 1,700 hectares of rubber smallholdings between 1957 and 1959. From 1960 to 1964, by contrast, a further 43,400 hectares were developed, including 7,200 hectares planted with oil palms in centrally-administered schemes which were managed in a similar way to plantation estates, but owned by the people who worked on them. Meanwhile, little or no extra land had been allocated to European-owned plantations since the outbreak of the Second World War, although as marginal reserve land was brought into cultivation between 1940 and 1975 their total planted area did rise by 3 per cent, from 887,000 to 918,000 hectares.[21]

The New Economic Policy shifted the government's approach to the foreign-owned plantations sector from containment to confrontation. The key defining moment came in late 1973 with the publication of the mid-term review of the Second Malaysia Plan. The Plan covered only the five years 1971-1975, but the review generated a twenty-year Outline Perspective Plan setting eight targets for production, employment, education and welfare gains to be met by 1990. Among these targets were the reduction of inequality in income distribution, and 'the creation of a commercial and industrial community among Malays and other indigenous people in order that, within one generation, they will own and manage at least 30 per cent of the total commercial and industrial activities of the country in all categories and scales of operation'. In order to meet this target, and to allow for a further 40 per cent stake for Malaysians of Indian and Chinese ethnic origin, foreign ownership would have to fall from 61 per cent to 30 per cent of the nation's private-sector capital assets by 1990. The freeze on new land allocations meant that this restructuring could not be achieved relatively painlessly in the course of expansion. It would have to be pushed through by compulsory share purchase orders or, as in fact happened, by sales of shares at market-clearing prices through private negotiations or on the stock markets.[22]

Strategic Withdrawal of British Plantation Firms

As White has shown, the agency houses viewed the prospect of shared British-Malaysian ownership with dismay. They were distrustful of established Chinese business leaders and feared that local directors would meddle needlessly with their own firms' operations or worse still, introduce corrupt practices.[23] Like the directors of United Plantations in the 1950s, the directors of British agency houses in the 1960s took steps to separate out the legal ownership and control of assets held in Malaysia from those held elsewhere in the world. For example, Boustead and Company's London subsidiary, Edward Boustead and Company, became wholly independent of its Malaysian parent in 1960; and the Guthrie Corporation Limited, formed through a merger between the formerly loosely-linked Guthrie Estates Agency Limited group of plantation firms in 1965, immediately established a Malaysian subsidiary, Guthrie Ropel Sendiarian Berhad, to which they intended to transfer their local assets in preparation for placing shares with Malaysian private investors and *bumiputera* investment institutions.[24]

On the surface, the Agency Houses were well placed by 1970 to begin co-operating fully with the New Economic Policy. However, their British directors remained deeply reluctant to give up control. They found numerous reasons to delay making public share issues or placing large tranches of shares privately with institutions like Pernas, FELDA, and the savings funds Lembaga Tabung Angkatan Tentera and Lembaga Urusan dan Tabung Haji. When they did begin to sell shares in the mid-1970s, and to appoint Malaysian Directors to represent the new participants in ownership, the agency houses sought to attract former diplomats, civil servants and others whom they felt would be amenable to expatriate British influence.[25]

A celebrated challenge was made to this practice in the case of Sime Darby in 1976, as a result of which the British Chairman resigned and was replaced by the former Malaysian Minister of Finance Tun Tan Siew Sin. At the same time three new directors nominated by Asian shareholders joined the Board. Sime Darby moved its domicile from Britain to Malaysia in 1979 and made a dramatic bid to take over the Guthrie Corporation, succeeding in buying up over 45 per cent of the firm's shares on the open market. In 1980 Sime Darby transferred its stake in Guthrie to Pernas, which proceeded to conduct a £100 million 'dawn raid' on the London Stock Exchange in September 1981, acquiring a controlling interest in the company without the prior knowledge or consent of Guthrie's management. More peaceful negotiations followed swiftly with two other leading agency houses, Barlows and Harrisons & Crosfield, which recognised the need for compliance with government policy. Both firms had sold a controlling stake in their Malaysian operations by the end of 1981, but then found the position of a minority shareholder extremely uncomfortable. Barlows divested completely in 1983, and Harrisons' followed in 1989. One final agency house, Boustead Limited, had sold its Malaysian plantations outright in 1976 to an Asian bank, anticipating the general trend in which British investors chose to withdraw completely rather than to share ownership and give up control. Sadly, this strategy did not lead to fresh business successes as capital was redeployed towards the developed industrial countries of Western Europe and North America. Many firms struggled and failed during the 1990s to cope with the twin challenges of entering new sectors, for example advanced chemicals manufacturing or financial services, and satisfying the needs of the British capital markets for short-term financial performance.[26]

The New Economic Policy Evolves

Following the withdrawal of the British agency houses, together with similar developments outside the plantations sector, the Malaysian government could safely conclude that the commanding heights of the Malaysian economy had already been captured by 1986, when an economic downturn prompted Prime Minister Dr Mahathir Mohamad to suspend the restructuring targets of the New Economic Policy. Under the New Development Policy or 'Vision 2020' launched in 1991, foreign direct investment became openly welcome once again. The *bumiputera* commercial and industrial community, meanwhile, was urged to look beyond the quantity of shares held and to maximize the quality of their participation in the economy by improving the profitability of the enterprises in which they were participating.[27] Even before this, Mahathir's Look East, Malaysia Incorporated, and privatization policies (launched in 1983) had signalled a renewed enthusiasm for the private sector and a respect, in particular, for Japanese management methods. Dr Kenichi Ohmae of McKinsey & Co., a world-renowned business guru, became a consultant to the Malaysian government. Labour laws were tightened in 1980 to restrict union activity still further than before, and Japanese-style quality circles and in-house unions were encouraged as means of boosting productivity. From the late 1970s onwards, labour shortages were eased by a tacit government policy of allowing immigration from Indonesia, Southern Thailand, and the Southern Philippines. Just as the agency houses were withdrawing, the Malaysian government was setting the scene for renewed capitalist growth in the plantations sector, as elsewhere.[28]

What the agency houses overlooked, in their focus on ownership and control, were the great opportunities for renewed growth and profits, even in the 1970s in Malaysia. The New Economic Policy envisioned a process of export-led industrialization and agricultural growth that would ease the achievement of key redistributive aims. It confirmed the policy shift introduced by the Investment Incentives Act of 1968, which had allowed for the granting of tax credits to export-oriented firms which made capital-intensive innovations, and which was accompanied by the exemption of processed oil palm products from the 7.5 per cent export duty levied on crude palm oil. The early nationalists' emphasis on import substitution had been banished, returning only briefly in 1980-1985 before being abandoned, apparently permanently. The results of this policy shift were clear. Malaysian real GDP grew by over 7 per cent per annum throughout the 1970s, as compared with a growth rate of 5 per cent in 1966-1970 and 1981-1985, both periods when the government was emphasizing import substitution. The renewed emphasis on export-oriented industrialization, and the relaxation of the policy of indigenization of ownership from 1986, brought the growth rate back up towards 7 per cent again. Meanwhile, Malaysia remained among the top four nations in terms of its share of all FDI flowing into developing countries. In 1975-1980 Malaysia attracted an annual average of US $520 million of new foreign direct investment, 7 per cent of all inflows to developing countries and 2 per cent of all FDI worldwide. By 1990-1996 Malaysia's annual inflow had risen to US $4,300 million, 6 per cent of all inflows to developing countries and still 2 per cent of all FDI worldwide.[29]

Much of the inflow of foreign capital into Malaysia in the 1970s and 1980s came from Japan, Singapore, Hong Kong and Taiwan, and was directed into specialized export processing ventures. Some British and American investors were also attracted by the tax and tariff exemptions, and prospects of unchallenged control over equity, offered for such ventures.[30] The plantation industry is not traditionally seen as having any natural connection with such activities. However, the 1960s switch from rubber to palm oil as the main plantation crop had brought with it the need for plantation firms to develop engineering skills, for palm oil can only be extracted from the fruit of the oil palm by a long and complex process. The development of Malaysian economic ties with Japan and with other Asian nations during the 1970s and 1980s also brought new opportunities for palm oil producers, for as the European market for edible oils and soaps stagnated, the purchasing power of potential Asian consumers was growing rapidly. In the case of the palm oil industry, Malaysian economic nationalism could and did express itself in striving to become the world's leading producer, in terms of quality as well as quantity; and in developing a refineries industry that could supply the needs of Asian end users directly, cutting out the European middlemen. Perhaps it is no coincidence that Socfin, Unilever and United Plantations – the three European plantation firms which weathered the share-buying storms of the early 1980s, and took the trouble to establish a new *modus vivendi* with Malaysian shareholders – were also distinguished by their exceptionally high ability to contribute to these nationalist aims, through their long experience of the palm oil industry and their shared dedication to the twin causes of mechanization and market development.[31]

Three European Survivors

At the time of Pernas' 'dawn raid' on Guthrie in 1981, Socfin controlled about 28,000 hectares of oil palm plantations in Malaysia; Unilever, through its subsidiary Pamol Plantations Sendirian Berhad, had 14,000; and United Plantations had 13,000. Together they accounted for 9 per cent of the oil palms in Malaysia's estates sector, and 5 per cent of the area planted to oil palms by all growers, including FELDA and the other state-sponsored resettlement schemes. Compared with Guthrie's 120,000 hectares, Harrisons' 85,000 hectares, and Sime Darby's 77,000 hectares, their holdings were small indeed.[32] However, they were not so small as to pass beneath the radar of the nationalists. United Plantations' Scandinavian shareholders sold a controlling interest in their company to Kumpulan FIMA Berhad in 1982, and although Unilever was not under pressure to give up control of Pamol Plantations Sdn. Bhd., this firm was already involved in a joint venture with the Sabah Land Development Authority for the development of its newer estates in Sabah. By the time Pamol was finally sold to Palmco, a subsidiary of the Chinese-Malaysian IOI Corporation Berhad in January 2003, the Sabah estates had expanded to cover 14,000 hectares and accounted for 62 per cent of its land holdings.[33]

The case of the Socfin group is different because it was controlled by the Fabri family of Luxemburg, the Franco-Belgian Rivaud family and the French Bolloré family, so that its shares were not publicly quoted. Although the group's affairs have long been shrouded in secrecy, it appears that some attempt was made to comply with the New Economic Policy in that one of the group's companies, New Selangor Plantations Sendirian Berhad, did gradually sell off the 13,000 hectares which it owned. These sales occurred from the mid-1980s to the early 1990s and took advantage of the booming demand from property speculators for land near Kuala Lumpur. Socfin's remaining 15,000 hectares remained in the possession of a second company, Socfin Plantations Berhad, a subsidiary of the group holding company Plantations des Terres Rouges, until 2004, when its 12,000 hectares in Johor were sold to Achi Jaya Plantations and the 3,000 hectare Lima Blas Estate in northern Selangor was sold to United Plantations Berhad.[34]

Socfin's long survival may partly have been related to the fact that, like Olof Grut at United Plantations, a number of senior Socfin staff were happy to mix socially across racial boundaries and to become long-term residents of Malaysia. The novelists Henri Fauconnier and Pierre Boulle, whose books take the reader beneath the surface of local societies, began their careers with Socfin in Malaysia. After *Merdeka*, Socfin planters including Pierre Laine, Tan Sri Victor Hutson and the last of the local Chief Executives, Jeremy Diamond, married or acquired adoptive families locally. Victor Hutson, an Irishman who arrived in Malaysia as a British Army officer in 1945, was an early advocate of localization of senior management and became a close personal friend of Tunku Abdul Rahman, whom he first met in 1953 at a football match. With the Prime Minister's encouragement, Hutson set up the Zoo Negara (National Zoo), the Outward Bound Trust in the Perak coastal town of Lumut, and the Malaysian branch of the Royal Commonwealth Society. Jeremy Diamond, while living at Socfin's Rantau Panjang Estate in the 1980s, did valuable conservation work on Fauconnier's pioneering avenue of oil palms, established in 1911 in Malaysia's first commercial trial of what was then an exotic crop. He also worked to establish a nature conservation zone at Lima Blas Estate when based there at the end of the 1990s.[35]

Unilever's company culture was hardly noted for its enthusiasm for conservation or for its appreciation of non-European peoples and their values, especially before the Second World War when the firm's African activities involved demands for monopolistic concessions in the Gold Coast (Ghana), Nigeria and Sierra Leone, and association with an exceptionally rapacious and repressive regime in the Belgian Congo. However, within pre-war Malaya the firm was known (if at all) as a manufacturer of soap and other consumer goods, and it was almost by chance, through seeking a profitable way to spend £205,000 due from local war damage claims in 1947, that Unilever decided to enter the plantations industry with the purchase of a small estate in Johor. By this time the firm's image and culture were changing rapidly. In partnership with Belgian government scientists Unilever had made substantial investments from the 1930s to the 1950s in developing new plant breeding and palm oil mill extraction techniques in the Belgian Congo. These innovations could now be transferred to Malaysia, where the more favourable investment climate ensured that they could contribute effectively to the process of export-led growth and industrialization, thus helping the nationalists to realize some of their key ambitions.[36]

At Unilever's corporate headquarters in England and the Netherlands, earlier ambitions of Third World social engineering had been abandoned and the firm was refocusing on its core strengths of manufacturing and technical innovation. The process of innovation was becoming increasingly systematic, scientific and market-focused as the firm began to depart from its pre-war policy of letting staff develop their technical knowledge 'on the job' and apply it primarily to solve immediate operational problems. Within the Plantations Group, the rise of Leslie Davidson from the mid-1960s onwards brought a new managerial openness to Asian culture. When working in Malaysia, Davidson did not care to attend the traditional expatriate Sunday curry parties unless Asians were also invited. In 1976 Davidson was appointed group vice-chairman and from 1979 he was reporting to T. Thomas, the former chairman of Hindustan Lever, who was the first Asian main board director of Unilever.[37]

Like Unilever, United Plantations endeared itself to the Malaysian government under the New Economic Policy by embracing the nationalists' aim of developing the quality and marketability of the nation's palm oil exports. Unilever was able to do this through first-hand knowledge of the requirements of the European soap, detergents and edible oils processing industries. For United Plantations, the task was more difficult. The firm was relatively small and, until it bought a 25 per cent stake in the Danish refiner Aarhus Olie in 1978, it had no direct links to the European oil-processing industries. Børge Bek-

Nielsen, who became United Plantations' chief engineer in 1959, rising to become senior executive director in 1971 and chairman in 1978, followed a consistent policy of watching the competition, learning, adopting and adapting new techniques as soon as their market advantages had been clearly established. He developed firm friendships with Leslie Davidson and other industry figures who respected his passion for innovation and his dislike of turnkey solutions.[38]

Within United Plantations, one of Bek-Nielsen's closest friendships was with S. 'Krish' Krishnan, a Malaysian who had studied chemical engineering in India and, like Olof Grut, shared his enthusiasm for developing new products for Asian consumers. In 1970 Krishnan undertook a four-month study tour of refineries in India and in Europe, which gave him the idea of using the relatively untried technique of fractionation to make a palm-oil-based form of vanaspathi, an extremely popular vegetarian shortening in India, where it was used as an alternative to butterfat ghee. Within a year United Plantations had formed a joint venture with the Tata Oil Mills Company of Bombay to build a refinery at their Jendarata estate in Lower Perak. In order to gain the freedom to supply their own crude palm oil to the new refinery, United Plantations resigned from the long-established Malayan Palm Oil Pool, dominated by Guthrie, which had channelled all sales through London. This act in turn dissolved the Pool, allowing FELDA too to gain independence and shift sales decisions to Kuala Lumpur. Malaysia's palm oil exports to a wide range of Asian nations have continued to grow rapidly from 1971 until the present day, with some additional help from Bek-Nielsen during the late 1980s 'War of Oils' when American soyabean oil exporters, who by then had become the industry's main competitors, launched a propaganda campaign against palm oil in the English-language media. Bek-Nielsen's effectiveness as an international ambassador for the Malaysian palm oil industry, coupled with his sustained support for the New Economic Policy aim of industrialization and for the development of Asian rather than European trading networks, explains why he and his sons have continued to be welcome business guests in Malaysia to this day.[39]

One obvious sign of the high esteem in which Bek-Nielsen and his firm were held by Malaysian politicians is the fact that in this case, the *bumiputera* takeover was long delayed and very amicably concluded. The Malaysian buyers in 1982 valued United Plantations' estates at roughly double the price per hectare paid for Guthrie's, Barlows' and Harrisons' estates the previous year. Even more importantly, the takeover was made not by Pernas, as usual, but instead by a consortium of savings and investment funds led by the state-owned company Food Industries of Malaysia Berhad (FIMA). FIMA's chairman, Dato' (now Tan Sri) Haji Basir bin Ismail, was a close friend of Dr Mahathir Mohamad, who had himself been chairman of FIMA until he became Prime Minister in 1981. This was not a classic 'crony capitalist' relationship because Basir was well known for his efficiency as a manager and his genuine interest in agricultural development, which he had studied at Durham University and Wye College in the UK, and practiced for many years in his home state of Johor. In 1982 he became the first Asian chairman of the Rubber Growers' Association and he is currently chairman of the Malaysian Palm Oil Board.[40]

Bek and Basir soon discovered that they shared a common interest, not only in innovation but also in workforce welfare, and they maintained a fruitful working partnership for twenty years with Basir as chairman, and Bek-Nielsen as senior executive director of United Plantations. The relationship between them endured even though, in September 1990, FIMA was privatized through a management buyout, and in 1991 the Malaysian government allowed the original Scandinavian shareholders, together with their more recent business partner Aarhus Olie, to buy back a controlling share of United Plantations. By this time, the firm had expanded its land holdings to 23,000 hectares, and the Scandinavian shareholders had set up a second plantation enterprise as a joint venture with the Perak State Agricultural Development Corporation, converting 9,000 hectares of abandoned sugar plantings to oil palms. For United Plantations' original owners and top managers, the New Economic Policy had simply ushered in a new era of expansion, and stimulated their entry into fresh and fruitful partnerships with Asians.[41]

United Plantations' positive experience of economic nationalism is clearly linked to the company's own cultural openness and to the positive attitudes of leaders like Olof Grut and Børge Bek-Nielsen to the legitimate aspirations of the nationalists. These leaders' approach went well beyond the rather grudging compliance which was characteristic of the agency houses, and which current sceptics think typical of most firms endeavouring to practice 'corporate social responsibility'. For Børge Bek-Nielsen, a commitment to high levels of medical provision for the workforce, schools, temples and mosques, clean water and decent living conditions, was a fundamental part not only of his personal philosophy but also of the management culture established by the firm's original founder, Aage Westenholz. He treasured a copy of an article published by Westenholz in 1922 which drew on the ideas on co-operation of the nineteenth-century Lutheran pastor, Danish patriot and social reformer N.F.S. Grundtvig, founder of the Folk High School movement, to develop a case for co-operation between the owners and employees of a capitalist enterprise. At a time when the government was doing little to enforce its own guidelines on plantation working conditions and living standards, therefore, United Plantations prided itself on going well beyond the guidelines to provide an outstanding example of best practice. This philosophy, enhanced with a growing commitment to environmental conservation, continues to animate the firm under the current chairman, Tan Sri Datuk Dr. Johari bin Mat, and chief executive Ho Dua Tiam, with Bek-Nielsen's sons Carl and Martin, and Basir's son Ahmad Riza, continuing to serve on the board of directors. The philosophy is by no means wasteful or unprofitable: the pre-tax return on net capital employed by United Plantations for the past ten years has averaged 17 per cent, as compared with 16 per cent achieved by Harrisons & Crosfield, and 9 per cent by the Guthrie Corporation, in the last ten years before the exit of their British investors.[42]

Conclusion

This paper has compared and contrasted the strategies developed by the British agency houses and other European firms in response to the intensification of Malaysian economic nationalism since 1970. In contrast to the typical agency-house strategy of reluctant compliance with changing national policies, resulting in the complete exit of British investors by 1990, the examples of Socfin, Unilever and United Plantations have been explored to show how firms could embrace rather than resist the new ethics of nationalist development.

In Unilever's case, the firm's commitment to economic development and the development of local markets, supported by an exceptionally high level of technical expertise, have been shown to explain why the Malaysian government tolerated a continuingly high level of foreign ownership and control. In Socfin's case, limitations of source material preclude a detailed analysis although it is clear that personal friendships and political connections reinforced the defensive strength provided by the firm's complex family-dominated ownership structure, allowing the group to weather the storm of economic nationalism and to sell its properties at times and prices of its own choosing. Finally, in the case of United Plantations, a positive enthusiasm for employee welfare and local economic development has been shown to be rooted in the founders' earliest ideals. This enthusiasm underpinned the effectiveness of Børge Bek-Nielsen both as an innovator and as an ambassador for Malaysia's palm oil industry abroad, earning him and the original Scandinavian investors the opportunity to retain and expand their involvement in Malaysia over the long term.

In all three cases, the firms developed flexible strategies embracing some key aims of the economic nationalists. Their managers made new local friendships and partnerships. United Plantations went furthest of all, exceeding the demands of the nationalists by improving the welfare of their workers, as well as furthering the cause of national economic development. In so doing they enhanced their corporate reputation, built employee loyalty and developed a web of other local relationships that helped to sustain their commercial success. They became successful practitioners of corporate social responsibility long before the term had been invented.

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Notes

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2 Faaland, Parkinson and Saniman, *Growth and Ethnic Inequality*, 139-145; Jomo, *Growth and Structural Change*, 154-161.

3 Lindblad, *Foreign Investment*, 108-109; White, *British Business*, 16-18 and 216-217.

4 Puthucheary, *Ownership and Control*; Drabble, *Economic History*, 154-177; White, *British Business*, 58-59 and 173-176.

5 Basir, *Land and Agricultural Policy*; Amin and Caldwell, *Malaya*, Ch. 7.

6 White, “Gentlemanly Capitalism”; White, *Business, Government and the End of Empire*.

[7] Ampalavanar, *Indian Minority*, Ch. 3; Furedi, *Colonial Wars*; Harper, *End of Empire*; Lee and Tan, *Chinese in Malaysia*; Stockwell, "Malaysia"; White, *British Business*, Introduction and Ch. 2; Ramasamy, *Plantation Labour*, Chs. 5-7; Ramachandran, *Indian Plantation Labour*, Chs. 6-8.

[8] Corley and Tinker, *Oil Palm*, 10; Drabble, *Economic History*, 167; Martin, *UP Saga*, 154-159 and 202. Contribution margins are calculated by subtracting production costs (direct and indirect) from sales revenue for each crop in each financial year. The resulting figure is then expressed as a percentage of relevant sales revenue.

[9] International Plantation Services of Copenhagen, which handles relationships between United Plantations, its shareholders and related companies, gave the author access to Heilmann's unpublished "Outline history" and to their files of correspondence on Ecuador, 1960-1974, and on the formation in the 1950s of United Plantations South Africa Limited, United Plantations Swaziland Limited, and the Bahamas holding company International Plantations and Finance Limited.

[10] Schodt, *Ecuador*, Chs 3 and 4.

[11] Corley and Tinker, *Oil Palm*, 133-145; Wilson, *Unilever*, 78-79; Maycock, "Developments in Palm Oil Factory Design", 339-342.

[12] The statistics in this paragraph are from Hartley, *Oil Palm*, 8; Lim, *Economic Development*, 336; and Usoro, *Nigerian Oil Palm Industry*, 127.

[13] Hill, *Indonesian Economy*, 2; Young, "Zaire", 698-730; Martin, *Palm Oil and Protest*, 129-133.

[14] Chairman's Statements published in the Annual Reports of United Plantations, 1965-1970.

[15] Laugesen et al, *Scandinavians in Siam*, 25-30 and 56-62; Royal Danish Education Ministry, *30 Cycles of Friendship*, 59-69; Boje, *Danmark*, 42-50.

[16] Jørgensen, "United Plantations", Ch. 11; interviews with United Plantations executives Axel Lindquist, 20 February 1989 and Dato' Seri Børge Bek-Nielsen, 15 April 1989; personal communications from family members who were with Olof in Australia: Dr Valdemar Lindquist, 15 August 1997 and John and Flemming Heilmann, 29 January and 3 February 1999.

[17] Sources as previous note plus interview with H.V. Speldewinde, 9 April 1989.

[18] Jørgensen, "United Plantations", 163-177; United Plantations Annual Report 2005.

[19] White, *British Business*, 72-77; Idriss, *Malaysia's NEP*, 34-35.

[20] White, *British Business*, 65 and 79; Idriss, *Malaysia's NEP*, 39.

[21] Khera, *Oil Palm Industry*, 33-35 and 144-147; Courtenay, "Plantation", 333.

[22] Faaland et al, *Growth,* 76-81; Bowring, "Buying Back the Plantations", 48.

[23] White, *British Business*, 81-84, 190 and 216-217.

[24] Drabble and Drake, "British Agency Houses", 314-318.

[25] Drabble and Drake, "British Agency Houses", 324; Pugh, *Great Enterprise*, 214-217 and 248-252; Saham, *British Industrial Investment*, 134-135.

[26] Drabble and Drake, "British Agency Houses", 315-325; Jesudason, *Ethnicity and the Economy*, Ch. 4; Jones, *Merchants to Multinationals*, 346-347; Jones and Wale, "Diversification Strategies", 96;

Lindblad, *Foreign Investment*, 108-109; Pugh, *Great Enterprise*, 269-270; Tate, *RGA History*, 588 and 598.

[27] Puthucheary and Jomo, *No Cowardly Past,* 79; Khoo, *Beyond Mahathir*, 19-20 and 197.

[28] Jomo, *Growth and Structural Change*, Ch. 9; Nor et al, *Malaysia Incorporated*, 1-7 and 57-60; Sun and Tong, "Malaysia Privatization", 100.

[29] Drabble, *Economic History*, 186-189 and 235-239; Fong, *Technological Leap*, 26-36; Jomo, *Growth and Structural Change*, Ch. 6; Dunning, "New Geography", 24-25.

[30] Rasiah, *Foreign Capital*, 76-82.

[31] Martin, *UP Saga,* Ch.7.

[32] United Plantations' Annual Report, 1981; Wong, "France Woos Malaysia"; Wong, "Malaysia Buys"; Law, "Development".

[33] United Plantations' Annual Report, 1982; Jones, *Renewing Unilever*, 200; Zaidi, "Unilever to Dispose" and "Palmco Buys".

[34] Singh, "BGroup"; Anon, "Berjaya Group"; White, "End of an Era"; Bolloré Investissement Annual Report, 2004. William Gervase Clarence-Smith and Jean-Charles Belliol provided helpful guidance in making sense of the opaque materials on Socfin.

[35] Hartley, *Oil Palm*, 21; Tate, *RGA History*, 453-454; Ong, "Son of Malaysia"; Yeang, "Father of Zoo Negara"; Chong, "Seduction"; Fauconnier, *Soul of Malaya*; Boulle, *Sacrilege in Malaya*; personal communication with Jeremy Diamond, now a non-executive director of United Plantations Berhad.

[36] Hancock, *Survey*, 190-195; Phillips, *Enigma*, Ch. 5; Fieldhouse, *Unilever Overseas*, Ch. 9; Martin, *UP Saga*, 142-145 and 185-189.

[37] Wilson, *Unilever*, Chs I and II; Jones, *Renewing Unilever*, 78-85, 189 and 276; interview with Davidson on 7 July 1988 and reminiscences of him by Mahbob, *Planter's Tales*, 41-50.

[38] Wilson, *Unilever*, 67-71; interview with Davidson, 7 July 1988.

[39] Interview with Krishnan, 16 April 1989; Krishnan, "Report on the study tour of India"; Khera, *Oil Palm Industry*, 280-284; Gurunathan, *War of Oils*, Chs 3-8.

[40] Wong, "United Plantations"; Searle, *Riddle*, 46-50, 96-98 and 259; Tate, *RGA History*, 576, 598-600 and 619; interview with Basir, 21 April 1989.

[41] Martin, *UP Saga*, Chs 9 and 10; Wong, "Danes Cash In"; Kragelund, *Aarhus Olie*, 216-217.

[42] Blowfield and Frynas, "Setting New Agendas"; Westenholz, "Samarbejde"; Martin, *UP Saga*, 278-280; Ramachandran, *Indian Plantation Labour*, Chs 4 and 5; Cruez, "Standards"; Mathews, "Occupational Safety"; United Plantations Annual Report, 2005; Jones, *Merchants to Multinationals*, Appendix 2.