



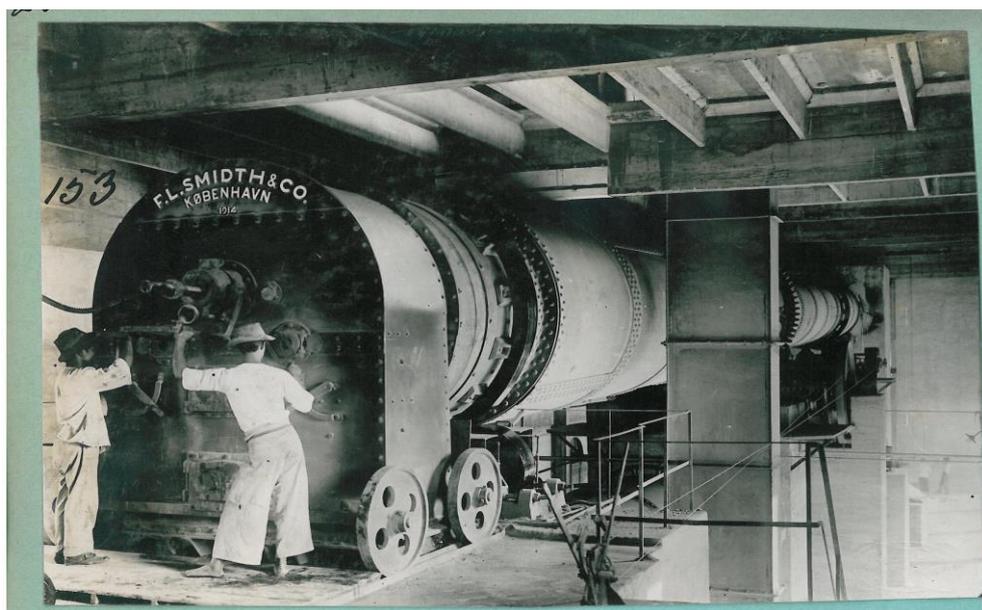
## The History of F.L. Smidth & Co. in Thailand

### *160 Years of Diplomatic Relations between Thailand & Denmark*

*The strong relations between our two Kingdoms, Thailand and Denmark, have a long history. In fact, the relationship took its beginning in the early 17<sup>th</sup> century and the two old Kingdoms have enjoyed an almost unblemished bond since their first contact. During the long and wise reign of King Chulalongkorn, connections between the two Kingdoms became close. This eventually materialized when a few outstanding Danish personalities attained high positions in the Thai administration. All over Thailand, the Danish footprints are significant and on the request of King Chulalongkorn, Danes were involved in Thailand's industry, commerce, Royal Navy, power system, tram & railway and later aviation, farming and dairy.*

*This year in 2018, we are celebrating the 160 years of diplomatic relations, which serves as a stepping-stone to celebrate, but also to further strengthen our bilateral relations. This paper outlines an example of our longstanding bilateral relations through a background story of the cooperation between the Danish company F.L. Smidth & Co. and the Thai company Siam Cement Group.*

The story about F.L. Smidth & Co. (FLS) and The Siam Cement Co. (today, Siam Cement Group, SCG) is a part of the case study behind the thesis: “*When China awakens ... Danish Multinational Business in Asia up to the Second World War*” which was defended for the dr.phil. degree, by Morten Pedersen, 2018. The case study draws on comprehensive - and until now unused - material from FLS's archives. The correspondence, photograph, and drawing collections in particular, were integral to be able making detailed analyses of FLS's internal interactions and their interactions with partners and customers. As a starting point, the approach and the establishment of a very close cooperation with SCG is analyzed. This study draws on a large pool of personal correspondences from the first director of SCG, Oscar Schultz, and uncovers how he and the influence from the FLS-management in Copenhagen were formative to the establishment of SCG. The analysis comes very close to Oscar Schultz' person and his perception of his life in Thailand. The title is therefore “*Like Living on an island ...*”, because that was how he described his own situation to relatives back in Denmark. Through this paper, the main outline of the story is summarized.



*The Siam Cement Co., Bangsue 1916. Photo from FLSmidth archives, Valby.*

In 1913, F.L. Smidth & Co.'s first technology transfer to The Siam Cement Co. took place in a heavily politically influenced context. Siam was still outside of the colonial system, but the country acted as a buffer between the British interests in Burma, and the French interests in Indochina. It was essential for the Siamese monarchy to secure the continuation of Siam as an independent nation. From the mid-1800s, a reform process was therefore initiated, following a Western model, which included expansion of the military and the country's infrastructure. The country's infrastructure was so advanced by the advent of the 20<sup>th</sup> century that there was a viable basis for a cement supply independent of Western imports. The cement supply's political importance became apparent with the establishment of The Siam Cement Co. in 1912-1913, which was an initiative of King Vajiravudh.



*Early cement plant in the northern part of Denmark. 1873. The plant 'Cimbria' was constructed before the introduction of rotary kilns and tube mills and was roughly a combination of a tile works, a traditional lime kiln and a grain mill.*

For the Siamese, cooperation with the neutral and politically safe Denmark was, in general, attractive. Danish-Siamese business contacts had been building up since the 1860s and expanded from the 1880s onwards with the arrival of the Danish shipping magnate H.N. Andersen's companies in Siam, and a close personal contact with the Siamese royal family. Relations were strengthened from the 1890s with the shipping company ØK's (founded by Andersen) route between Europe and the Orient, as well as investments in Siamese forestry. As a part of this development, the establishment of The Siam Cement Co. solidified the already existing connection between the Siamese cement consumers and the Danish cement industry. For many years, ØK had exported Danish cement to Siam from the Nørresundby Portland Cement factory, established by ØK in 1906, and located in the northern part of Denmark. From 1910, the factory merged into the FLS-controlled "Cementringen Cartel" that was essential to FLS' position as market leading suppliers of technology. In 1912, one of FLS's founders – Alexander Foss – joined the ØK board of directors.

With the political advantages of its small-scale state status due to the base in Denmark, and its network in Siam, FLS were strong competitors for The Siam Cement Co.'s first factory. But, what kind of a role in the technology transfer could the Danes count on? Was a position as the social carrier of technology with influence on the Siamese company's future plans within reach? One part of the answer came quickly. Along with the machinery order, the Siamese asked FLS to provide a director, a chemist, and an accountant to manage the new cement factory.



*Oscar Schultz flanked by Emily Passano and family in Denmark shortly before Oscar's departure for Siam 1913. Oscar and Emily were newlyweds and she accompanied him to Siam. Her stay in Bangsue became, however, short as she escaped in 1917 accompanied by her Russian lover and left for Helsinki. The divorce had a huge impact on Oscar Schultz – and his role as a manager of the plant in Bangsue. Private photo.*

From the Danish point of view, there were many risks involved with a technology transfer encompassing both machinery and staff, but the situation also created many advantages. Releasing such competent people as the running of a cement factory demanded exposed FLS to opportunism that could deliver know-how into the hands of competitors, or downgrade the Danish bargaining position in future factory expansions. On the other hand, there was great potential in placing loyal employees in the customer's top positions, from where they could influence decisions to the Danish advantage, and deliver important information about conditions in the concerned regions. The situation, in other words, made it possible to exchange Danish cultural capital - in the form of technological and operational skills - for social, and therefore economic capital. The competences of the Danish employees, and even more their loyalty to Copenhagen was, however, essential to FLS. The appointment of engineer Oscar Schultz as director in Siam became therefore an example of how certain elements could add importance to such a strategy; especially since he was Alexander Foss's nephew and had been sent to a number of countries in his youth while in FLS's service. It was assumed that Oscar Schultz could manage the assignment, while staying loyal to his uncle's company.



*Bangsue 1916. Housing for the Danish part of the workforce on the right. FLSmidt archives, Valby.*

The next strategic step taken by FLS was in organizing the factory environment in a Danish management approach. This became an example of how the physical elements of a technology transfer – the factory plant itself – were included as an active element in FLS's internationalizing strategy. The factory was placed in Bangsue, in the marsh areas outside of Bangkok, on an island surrounded by canals and rail lines for transporting raw materials (chalk and clay), fuel (coal) and cement. Villas were built on the island for the Danish staff and the production plant was placed nearby. Clear parallels can be drawn between the design of the island in Bangsue and the layout of residential and production buildings in the grounds of a typical Danish manor. The physical design was highly detailed with a view to having management control of the operation and day-to-day running of the factory.



*Bangsue 1916. Housing for Oscar Schultz and Erik Thune. Oscar Schultz on the jetty. FLSmidt archives, Valby.*



The potential in exploiting an asymmetrical knowledge base to be able to obtain and retain Danish influence was immediately obvious. Oscar Schultz did gain total control of the factory, but he was also isolated; partly in regard to his relationship with the Siamese and Chinese workforce which he held at a distance, due to his Eurocentric world-view; and also in regard to the prestigious Siamese owners, who didn't hide the fact that he was merely a tolerated visitor. Consequently, as time went on and his homesickness increased, so did his feeling of isolation in Siam, and his loyalty to FLS.

The strong Danish influence was emphasized with the Bangsue expansion in 1921, which was constructed using machines from Copenhagen. The Danes, by now, had gained so much control over the company, that there was really no alternative. Oscar Schultz had no contractual ties to FLS, still, he acted first and foremost for his Danish parent company. A situation emerged where FLS did not receive a direct share of the profits from cement production, but instead profited from customer orders for production plant expansions, without having to increase their investment. A prerequisite for Danish success was, in other words, the success of the customers – in this case the SCG. A very close bond with strong mutual interests, where the division line between the companies could be very hard to draw. In that way, emerged and proved itself successful through a series of Danish born CEOs of the SCG until the 1970s, and a close cooperation that has lasted until present day.