Commercial practices and culture in the Eastern Mediterranean in the 18th century; the entrepreneurial organization of the Levantine trade **(Slide 1)**

The sea-borne trade of the Eastern Mediterranean and especially the external commerce of the Ottoman Empire with Western Europe reached their highest point in the 18th century. During this time, special economic and political conditions disturbed the long-established economic and social equilibrium and led to the reduction of the Ottoman Empire to a regional state. The Ottoman economic system lacked an adequate commercial and maritime superstructure, not to mention an experienced body of traders engaged in extra-imperial trade. Along with the absence of an explicit mercantile policy and a central power capable of promoting internal reform, these factors left external trade in the hands of western merchants.

French, British and Dutch merchants settled in various Mediterranean ports and competed over the vibrant market of the Ottoman Empire. It was a worldwide era of mercantile expansion and rivalry, particularly in the Atlantic and Indian oceans. However, the relatively small Mediterranean trade was not to be underestimated. Proximity to the great European ports, which ensured briefer and less dangerous voyages than transoceanic hauls, along with the untapped potential of the Ottoman market, made the Levantine trade enticing for European merchants. European cloth was widely traded in the Ottoman Empire in exchange for spices, oil, silk, cotton and wool from the hinterland.

Around the turn of the 19th century the three European groups of traders, who had dominated the Mediterranean since the 16th century, had to confront an upcoming maritime power, the Greek merchants and seafarers. Emerging organically from Ottoman society, these were thus accustomed to its economic and cultural practices and exploited this comparative advantage over their rivals. In the next century the Greeks would acquire a powerful merchant fleet and Greek commercial houses would prosper in the Mediterranean ports as has been shown or will be shown by other papers in this session.

The above-mentioned four ethnic groups shared the same trade, transporting goods between West and East. Despite their commercial coexistence and interaction in the Levant they followed relatively differentiated patterns of entrepreneurial organization. **(Slide 2)**In fact, privileged chartered companies operated simultaneously with free traders, personal firms and joint -capital partnerships. This paper will discuss the evolution of institutions over time (particularly the merchant firm as the vehicle of trade), as well as agency networks, cross-ethnic ties, and business practices employed to confront communal mercantile problems.

The importance of political systems to economic growth, the role of personalized transactions and cultural beliefs in decision-making and management of the firm are all components of a holistic economic history. In this framework, the historical issue of maritime entrepreneurship in the 18th century also involves the economic and socio-cultural issue of the construction of a common mercantile mentality. The exchange of cargoes in the Mediterranean was mirrored by an exchange in ideas, such as the Ottoman conceptions of autarchy in consumption, of the economy of plenty and tax accumulation (*fiscalism*) interrelating with the globalized money economy and the spirit of capitalism of the West.

In order to approach the business structures of the mercantile communities a business model is a useful methodological tool. **(Slide 3)** The one proposed by Gordon Boyce and Simon Ville for the growth and development of the firm, in this case shipping and trading firms, will be used as the guideline for this project. According to it, the study of a firm can be divided into the analysis of its internal structure (i.e. legal and bureaucratic organization) and its growth directions. The vertical and horizontal development of the business along with the diversification of its activities and its geographical expansion can be traced in the operation of the commercial houses of the British, French and Greek merchants in the Levant.

The British (Slide 4)

The business practice of trading through companies was widely adopted by the British. The British trade companies were not joint-stock firms but were in fact administered by a governor and a board of directors, who were elected annually. The Levant Company bore the special features of a hybrid business organization, the *regulated company*, which combined both private and public rights. In specific, it amalgamated two different types of delegated authority: the official royal authority and the property rights of its members. The Crown had bestowed the monopoly on Levantine trade to the Company while acknowledging its business status as a corporation. At the same time the merchants, who participated in this organization, had conceded part of their property rights to it.

Under the auspices of the Crown, the company was entitled to possess property of its own, impose taxes on its members and in general regulate and monitor its operation. Besides the governing body and its executive organs, the Levant Company consisted of a limited number of members. Only merchants, who were freemen from London, were actually eligible for the membership.

Contrary to the other commercial groups engaged in the Mediterranean, the British Company adopted the system of *general shipping* to transport the commodities of the Levantine trade. The measure was in practice until the mid 18th century and minimized casualties from pirates and privateers. The system of general shipping was organised on the base of yearly convoys of ships-around ten- which conducted trade: The British merchants preferred to concentrate their cargoes in a small number of large ships escorted to their destination by the naval fleet, to apportioning the risks of trade in a large number of smaller vessels, which would transport goods throughout the year.

The French (Slide 5)

As opposed to the British system of general shipping, the French used to conduct trade throughout the whole year especially since they were closer to the Levantine market and did not have to affront the additional risk of crossing Gibraltar. French merchants were mainly free traders and outnumbered their British and Dutch rivals.

The French patterns of business structure can be classified according to the origin of the capital invested in the commercial firm. Based on this criterion, there is a distinction between self-financed commercial houses and partnerships with joint capital. The most common self-financed association was embedded in family ties. The initial capital was usually invested by the head of the family, who was in charge of the decision-making and the management of the enterprise. The family members contributed mainly though personal labour; it was a common practice to dispatch the younger males to serve the family interests at the branches of the firm in the Levant. There they would be occupied as trainee traders before they could take over the business. Progressively all family members would be engaged in the running of the commercial house, although the firm would remain dominated by its founder. Occasionally a contract of the incorporation was signed by the members of the family, which designated the participation, rights and obligations of the contracting parties. It must be taken into account, that the family enterprise included members of the extensive family and relied on intergenerational cooperation. In this way, family firms remained active after the death of the founder and were reinforced by intermarriages with other mercantile families.

This type of individualist or family capitalism was predominant in the entrepreneurial organization of French commerce in the 18th century and co-existed with partnerships, where a number of investors joined their capital to finance a mercantile enterprise. One common type was *commenda partnership.* On the whole it was established between two contracting parties; the capitalist, usually a sedentary merchant who provided the funds, and the manager, who provided labour in the form of settling and transacting in the ports of the Levant. The capitalist was the silent partner, who supervised the corporation but did not interfere with its operation. On the other hand, the manager (*régisseur*) was subordinate and accountable to him (*majeur*) and was not allowed to conduct trade for his private interest. The disconnection between ownership and decision-making could potentially foster clashes of interest between the capitalist merchant and the salaried manager based on asymmetric information. Therefore in this type of association, contractual relations among family members were preferred as the means to suppress opportunism.

The economic development of the commercial houses in Marseille led to their expansion into the shipping business. Unlike the British case, where vessels were hired from the Levant Company to transport goods to the Ottoman market, the majority of French merchants were owners or co-owners of the ships which conducted trade in the Mediterranean. The ownership of a vessel was considered as a complementary business association to a mercantile firm. Most frequently the value of a vessel was apportioned in twenty four shares allotted to a number of traders, who were thus the co-proprietors of the ship. The partners would sign official contracts, which designated their share in capital, profits and losses and henceforward could sell or transfer their portion at will.

The Greeks (Slide 6)

Following the French example, which was more compatible with their economic and social conditions, the Greeks were predominantly free traders. Their business organization was mainly individualistic, since the individual, carrier and/or merchant was the foundation of every mercantile association. This reality does not exclude the existence of partnerships, which were very common between family members or compatriots. Consequently Greek trade was actually both individualistic and collectivist. Although the establishment and operation of the commercial firm was based on the individual capitalist and interpersonal relations, commerce in a broader sense was collectivist, considering the extended network of Greek traders across the Mediterranean. They acted as members of a wide agency system, based on commercial trust and solidarity.

In the context of entrepreneurial organization the Greeks followed the pattern of corporate ship-ownership. The partners varied from 4 to 8 and were selected on the bases of kinship or ethnicity. The very few examples of a single owner served social prestige rather than profit maximization. The contract of the partnership would be ratified by civic authorities or a number of witnesses and would be henceforth used as the memorandum of the shipping firm. The biggest investor would become the captain of the ship and was also the manager of the business, the buyer and seller of the merchandise, the person responsible for the apportionment of profit and losses to the co-owners and the manning and maintenance of the ship. Businessmen were in fact co-owners in a number of ships aiming at the dispersion of risk and the best placement and payoff of their investment.

The adoption of this business practice is related to a particularity of the Greek trade. The Greek ships were not only part of a shipping business, carrying commodities across the Mediterranean but were in fact trading them. In every journey, a new corporate capital was invested by the co-owners of the ship and other investors in the cargoes. In this way, two parallel associations, those of the ship and the shipment, coexisted. This gave an opportunity to a wider social group with limited capital resources to participate through money investment or labour, expanding the cycle of people involved in mercantile activities.

A common problem to be resolved; Agency Networks (Slide 7)

All traders, despite their individual differences in entrepreneurial structure, had to overcome a common organizational problem caused by the long-distance trading activities. The distance, and the consequently long sea journeys, increased the danger in shipping and transporting commodities in the Mediterranean, where ships regularly confronted privateers and pirates. Apart from the spatial remoteness, the cultural alienation between the West and the East which came down to differences over economic practices, commercial credit and trust, and linguistic difficulties, complicated trade business in the Levant. The two contracting parties were equally lacking in these regards, and faced equal challenges of obtaining information about mercantile mentalities, price fluctuation, demand of goods and competition.

The problem was overcome by dispatching agents to the distant location. They represented the principal, provided information about market trends, conducted trade on his behalf and defended his interests. The agents were responsible for receiving the commodities consigned by the principal, storing and preserving them till the moment they would dispose them in the market in the most profitable price. In a “horizontal” social structure, as was that of the French and Greek free traders, the individual could act as an agent *and* a merchant providing and receiving agency services especially in the early years of the establishment of a commercial house. Conversely, in the “vertical” business structure of the British and Dutch trade, the sedentary merchants from London and Amsterdam, who had invested their capital in far-off trade, hardly ever visited the Levant and hired apprentice traders as their agents.

In conjunction with the benefits that derive from the agency system and primarily the reduction in the transaction cost of trading abroad, this type of co-operative link brings up the issue of the principal’s control over the agent. The problem is caused by incomplete and asymmetric information since the agent knows more about the market than the principal and can be tempted by distance and loose supervision to pursue personal profit to the detriment of his employer.

In order to deal with this drawback the mercantile groups in the Levant applied a number of preventive and punitive mechanisms. In the absence of formal institutions established by the Ottoman Empire, such as an efficient judicial system to regulate contractual relations, the European communities had to institutionalise for their best interest the monitoring of their agents in the Mediterranean. For that reason all European groups promoted the establishment of a network of state officials, headed by an Ambassador in Constantinople and consuls in the major Ottoman port-cities. The British community in the Ottoman Empire had gone a step forward in enforcing the agreed terms between principals and agents. The Levant Company had issued ordinances, which defined the level of the commissions entitled by the agents, the price of factorage, and the cost of all the collateral services provided by the agents. Furthermore the Company’s charter designated the imposition of fines, imprisonment or disgraceful dismissal from the factories in the Levant for the misbehaving members.

In supplement to the few and insufficient formal means of ensuring the agent’s loyalty and honesty European traders and especially the French and Greeks based their business organization on kinship, ethnicity and religious networks. It was trust, interpersonal relations and mutual interest among relatives, compatriots or members of the same sect that secured control over long-scale long-distance trade. Loyalty to one's social group and respect to its members guaranteed social approbation and integration.

In such a collectivist society as was the Ottoman, *reputation* emerges as a controlling factor for the selection of commercial associates and agents. Social networks acted as informal information channels and reputation served as the means of implementing the terms of business agreements. Primarily it complied with a self-enforced preventive mechanism. It was in the agent's best interest to remain honest and abide by the contractual terms, in order to sustain his position in the market. Within the small number of traders in the Levant, an untrustworthy agent was to be debarred from the market and his bad reputation could deter any prospective associations with other principals. **(Slide 8)**

Regardless of the difficulties and the implications of being acknowledged as a reputable and respectable agent, the agency in the Levant was considered as a rewarding career prospect for young men with no prior fortune wishing to engage in trade. After all, merchants were gradually emerging as a powerful social group, destined to play an important role in the political and economic scene of Europe. Agents were able to accumulate a respectable capital enough to set up a personal mercantile business, by exploiting their experience and connections in the local market. It proved to be such a profitable employment that potential apprentices competed over the acquisition of a post and were even willing to purchase it.

Partnerships among agents were a common practice. Agents, who were hired by different commercial houses across the Ottoman ports, would agree to exchange information and assume factorage services on each other's behalf in order to reduce the transaction cost of establishing agencies in every port. Locals were largely employed as agents, since they were well aware of the Ottoman economic structure. They acted as the middlemen between the producers of goods in the Anatolian hinterland and the entrepôts of the Eastern Mediterranean, where commodities from Europe awaited to be distributed and exchanged in the market. Hiring a native rather than sending someone to the factories abroad was proven to be more profitable and efficient in the long run. After all cooperation with local agents was facilitated by the treaties of Capitulations. European communities within the Ottoman Empire had the right to bestow *berats* to locals (i.e. patents of protection), which entitled the possessor to all the economic and political benefits of the foreign merchants such as immunity, religious liberty, fiscal and trade privileges.