

## EUROPEAN AND NORTH AMERICAN MULTINATIONALS, 1870-1914: COMPARISONS AND CONTRASTS

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In the late nineteenth century and early twentieth centuries, the world shrank in its physical dimensions, as steamships, railroads, telegraph, and cables compressed distances. In Europe and North America, economic conditions changed. This was a time of substantial technological advance, with new products, processes, and forms of business organisation, challenging the older order. Because of improvements in transportation and communications, innovations spread rapidly throughout the industrialising world. One crucial conduit was business itself.

British businesses led in the process of multinational expansion. They were, however, not alone and companies headquartered in Continental Europe, the United States, and Canada also extended their activities over borders, making foreign direct investments, defined as those business investments that were or had the potential to be controlled or at least influenced in a significant manner from a headquarters in the United Kingdom, Germany, France, Belgium, Switzerland, Sweden, or other European countries or the United States or Canada.<sup>1</sup> Typically, the phrases 'multinational enterprise' and 'foreign direct investment' have been considered as synonymous, but it is more appropriate to see the relationship as follows: multinational enterprises make foreign direct investments – and carry on other tasks as well. The investments, the capital flows, are only part of the activities of a multinational enterprise. These companies must have a business association with the foreign operations.

British business historians can learn from looking at the experiences of British multinational enterprise, but they learn even more through comparisons. Thus, this article will cover British business overseas, but it will also deal with continental European and North American enterprise. In the conclusion, I will stress the insights that British business historians can obtain by virtue of such comparisons.

Some companies that did business across borders in the pre-1914 years did so in only a single foreign country; others by 1914 already had operations in several or even numerous lands and were truly multinational. The late nineteenth and the early twentieth century was the first period in world history when, owing to the transportation and communications innovations, it became possible to have meaningful business coordination, control, and influence over distance and for our purposes over country frontiers. The new products, processes, and

forms of business organisation were integral to this development. Higher per capita income was also critical, placing more individuals in a market economy and providing disposable income for the purchase of a myriad of goods and services. For these reasons, 1870-1914 was the initial era of the modern multinational enterprise.

Because the late nineteenth and early twentieth centuries witnessed great economic change and growth, in considering modern multinational enterprise I am not merely concerned with the beginnings, but with the subsequent course of the institution. In the years prior to 1914, a firm with business abroad in only one foreign country might be starting in the direction of expanding into other countries as well. Yet, no determinism, no inevitability, existed – and the process might be truncated. The business might fail (domestically and internationally), or alternatively a business might succeed but shed its multinational character, becoming a national enterprise in a host country or in the home country, or as a fourth possibility, a purely bi-national relationship might persist over a long period, with no broad multinational spread. The paths in multinational enterprise growth might start from different origins and involve diverse strategies. No simple, single, neat model fits every case. It is important, however, in studying the evolving institution to look at both beginnings and growth.

My definition of multinational enterprise, for purposes of this article, is comprehensive. I include any company that has a headquarters in one country (a home) and that operates in at least one foreign country (the host). 'Foreign' is defined as synonymous with abroad, that is, not in the home country; it could be within or outside an overseas Empire. A company that crossed a border and made business (operating) investments in only one foreign country was by this definition a multinational enterprise; so, too, I will include a firm with operating investments in many foreign lands. 'Operations' could be in the production of goods or services; a trading company, a bank, a public utility, and an owned sales outlet that produced services are included under the rubric 'operations'. In short, I do not limit myself to manufacturing firms – either at home or abroad.

Multinational enterprise involves *cross-border* control, or potential for control, or, at least, influence. An enterprise run by expatriates or immigrants frequently did not represent an ongoing foreign investment, much less a foreign *direct* investment. If there was no headquarters at home, there was *no* multinational enterprise. This is very important. A Britisher or German who migrated to the United States (for example) and set up business in this nation, if he had no obligation to any investor in the home country, there was no ongoing foreign investment, or foreign direct investment. (To call Andrew Carnegie's steel business in America a British investment is bizarre). Likewise, Swedes and Germans resident in Russia or Britishers resident in Argentina, who retained no headquarters abroad, are not foreign direct investors.<sup>2</sup>



Mark Casson in his latest book has argued that 'the modern theory of the MNE [multinational enterprise] has the potential to become a general theory of the enterprise in space, and as such, to embrace theories of the multi-regional and multi-plant firm'.<sup>3</sup> How can the comparative study of the history of multinational enterprise contribute to the efforts of the theoretician? I believe that the way to do so is to present our findings as we inquire into the development of such companies.

The rise of multinational enterprise is receiving substantial attention. Scholars know a great deal about the history of American, British, German, and Swedish multinationals.<sup>4</sup> We know far less about the history of French, Belgian, and Swiss business abroad.<sup>5</sup> In this essay, I seek synthesis. What is known, what is absent? What can the British business historian learn from the comparisons? What appear to be the common features in the historical experiences? If not neat nor simple, is there none the less an 'ideal type' – a model? Does the evidence fit into the emerging theory of multinational enterprise? What is distinctive to multinationals of Great Britain and of other particular home countries; can the special features be ordered in any discernable pattern? How was the rise of multinational enterprise associated with the changing national and world economies, 1870–1914? Or, is generalisation impossible, and regional (or host country) differences so vast as to nullify attempts to find patterns?<sup>6</sup> What are the new frontiers for research? How will they help the British business historian in furthering his search for an understanding of British business overseas?

I am not considering the years after 1914, because of space constraints, but also because I am convinced that 1914–18 (the period of the First World War) forms a watershed<sup>7</sup> and that a post-First World War analysis requires a greatly expanded treatment. Yet, as indicated earlier, it is possible to study entries and growth, as well as retreats and frustration in the pre-1914 years. In short, what follows is a look at an institution, the multinational enterprise, that seeks private profit through managed business abroad (in 1870–1914 there were few government-owned multinational enterprises).<sup>8</sup>

#### *Influences at Home on Multinational Enterprise*

All companies with business investments abroad are and have been shaped by economic and other conditions in their homeland, and only subsequently, by economic and other conditions in the countries abroad in which they did business. In each home country circumstances differed from one another, and in addition there were regional differences *within* home countries (in a short article it is impossible to inquire whether there were systematic differences between London and Glasgow-headquartered companies as they operated abroad, or between New York and Chicago ones, or more obviously Vevey and

Basle ones – yet we accept the proposition that such differences existed).<sup>9</sup> In each headquarters nation unique national characteristics had an impact on the nature and extent of firms' foreign direct investments. The galaxy of influences include factor costs, level and pace of industrialisation, areas of technological expertise, size and nature of the domestic market, relationships between banking and industrial units at home, national endowments of and requirements for natural resources, the availability of professional education, national status as exporter or importer of capital, government policies, geographical position, trade patterns (exports and imports), emigration, and undoubtedly such vague imponderables as culture and taste.<sup>10</sup>

Factor costs are helpful in explaining what advantage a company might have *vis-à-vis* companies with head offices in other nations. For a company to venture abroad, it had to have some expected (anticipated) advantage – for otherwise there was no rationale for the expansion and no hope of persistence.<sup>11</sup> It has often been pointed out that American costs of labour were high; thus, Americans substituted machines for labour; American business tended to have advantages abroad in businesses that were capital intensive, in mass production industries.<sup>12</sup> An analysis of British multinationals in 1870–1914 in terms of factor costs would stress the relative cheapness of capital. A recent study suggests that British firms had a comparative disadvantage in goods that were intensive in the use of human capital.<sup>13</sup> Factor costs by themselves, however, seem inadequate as a complete explanation of differences between and among multinationals from different nations. Relatively high labour costs in Canada did not make Canadian development similar to that of the United States. Canadian business abroad varied in numerous ways from its south of the border counterpart. Likewise, I find it very difficult to explain the huge differences between German and French multinational enterprise solely or even fundamentally in terms of factor costs.

The more industrialised, the more economically advanced the country, *ceteris paribus*, the more likely for it to be a headquarters for business abroad. While the match is imperfect, we would predict more German enterprise abroad than Spanish headquartered business over borders and our prediction would in fact be fulfilled. So, too, the large number (in relative terms) of British multinationals fits well under this explanatory rubric. Britain was after all the 'first industrial nation'.

Often technological advantage has been behind specific business enterprise expansion into foreign lands. The explanation is especially helpful *vis-à-vis* many US and German multinationals, but it is by no means adequate as an all-encompassing rationale. Moreover, there have been identified a number of Swedish cases of business abroad based on technology obtained in Germany (a third country) and British cases of business overseas to obtain (to pull in) technology from abroad. Technological advantage is also often inadequate in explaining an enterprise's backward integration into resource development.



The size and nature of the domestic market (including the number of customers, disposable income, and geographical dispersion) shaped business at home and became a significant influence on the characteristics of both domestic business and business abroad.<sup>14</sup> It had impact on the shift from family firm to managerial enterprise.<sup>15</sup> Yet, the size-of- and nature-of-market impacts were not always consistent. Swedish and Swiss firms with geographically and demographically small domestic markets, but relatively high income ones, made substantial foreign direct investments, while Danish and Norwegian companies did not. The 'heterogeneous' American market (with consumers from different cultural backgrounds, with extremes in climate, and with other substantial regional variations) offered an excellent learning experience for American managers abroad; the more homogenous British domestic market had a limiting effect on operating companies' managerial training.<sup>16</sup> Business abroad required managing enterprises over distance. This was in no way a given. Coping with the problems of a long span of managerial control often made the difference between success and failure of the ventures.

In most European and North American countries, banks seem not to have been of major importance *vis-à-vis* the vast quantity of their nationals' foreign business operations,<sup>17</sup> but in Germany and Sweden, banks were highly instrumental.<sup>18</sup> And, the foreign direct investments made by British and to a lesser extent, Canadian banks were a significant type of pre-1914 multinational enterprise.<sup>19</sup>

Lack of natural resources at home – when there was a domestic demand for such resources – stimulated some businesses to extend their operations abroad, although the absence of (or alternatively high cost of) a particular raw material did not by definition mean a foreign direct investment in obtaining it (French business invested abroad in phosphate production; I have no evidence that Swiss companies did). British professional education came later than that in America and Germany; educational systems seem to have had influence on the multinationals of the respective nations.

Operations in foreign countries were embarked on by companies in home countries that were net importers of capital (Russian insurance companies had multinational business) as well as by firms in countries such as Great Britain that were net capital exporters; creditor versus debtor nation status had an impact in shaping business abroad.

Home government policies had a complex collection of effects on business abroad, from those associated with imperial policies, antitrust policies, to tax policies, for instance. Empire created a familiar political infrastructure overseas that in general served to encourage nationals to invest in these countries, for uncertainty was reduced. Thus, British investment in Malaya and India exceeded that from continental Europe or the United States; Dutch companies had a relatively greater significance than any others in the Dutch East Indies. Antitrust policies (or their absence) altered the strategies of foreign investors: that

restraint of trade agreements were illegal in the United States had substantial effects on American business abroad. Tax policies began to affect companies' investment tactics (if not strategies) by the early twentieth century; this is a subject about which we know very little; my own research, however, suggests that in the first decade of the twentieth century British taxes may well have influenced the path of British business abroad.<sup>20</sup> It has long been accepted that French taxes redirected French portfolio investment (much of which was done through Switzerland to avoid taxes); yet, whether taxation had a similar impact on French foreign *direct* investment is a subject that as far as I know has never been explored.

The geographical position of the home country seems crucial to an understanding of where a nation's companies invested abroad, when they went abroad, as well as important in understanding their relationships with firms in neighbouring lands. Yet, sometimes, being 'politically', 'culturally', or 'linguistically' nearby was more important than geographical proximity. Directions of trade gave enterprises greater familiarity with certain areas – and a clear connection exists between the extension of business investment abroad and a nation's commerce, albeit there was never a perfect correlation (and, at any particular time, thwarted trade – because of tariffs – might be an incentive to raise foreign direct investment). So, too, often (but not always) there existed a positive relationship between emigration and the locales for foreign direct investment. Once, again, migration served to provide information flows and lower uncertainty costs.

I included the impact of culture, with reluctance, since it seems an amorphous concept. I am not sure that there was one American or German 'culture' that has shaped foreign direct investments, although it is easy to note proto-typical national characteristics and attribute them to culture. The 'American frontier spirit' and 'German aggressiveness' are examples. As a Frenchman explained (in 1915), 'the German is industrious, a remarkably hard worker, who sets about his task with diligence and energy ... Germany is disciplined'.<sup>21</sup> 'Taste' must sometimes be resorted to as a sole explanatory factor. How else is it possible to understand the sizeable British foreign direct investments in tea and German multinationals' involvements in coffee. (Is perhaps taste a sub-set of culture?)

In sum, we can itemise crucial variables in a home country that have impact, but such a roster is merely a start. It is the combinations of these economic, demographic, political, social and cultural impacts that form the basis for our discussion and for the marked differences country-by-country in the development of European and North American multinationals.

### *British Business Abroad*

Of all nations, the one with the greatest foreign direct investment and



the greatest number of overseas operations (1870–1914) was clearly Great Britain.<sup>22</sup> Vying for second place in this period were Germany and the United States, both of which nations headquartered numerous companies with business abroad.<sup>23</sup> After these three leaders, it is difficult to establish which country would rank fourth. Candidates include France and Sweden. Belgium is also a possibility for fourth place. Switzerland ranks high on the list, as does Holland.<sup>24</sup> Lower down on the tabulation are Canada, Austria-Hungary, Italy, Russia, and Bulgaria.

British business in 1870–1914 spanned the globe. Britain had in these years slower growth rates at home than did the United States and Germany. Its enterprises were, however (or as a consequence in some cases), very active abroad. The extent of British *business* overseas is just becoming known; many ventures were shortlived. For this article, I made a very rough count of British headquartered enterprises that I could document as having built or acquired manufacturing plants in the United States before 1914. The number of parent companies ran in excess of 100. Many had multiplant businesses in America. They owned roughly 255 manufacturing plants. But, approximately a third of these factories had shut down, or were no longer British-owned by 1914.<sup>25</sup>

British firms that operated overseas were of two basic varieties. First, and foremost, there were what I have called 'free-standing' companies.<sup>26</sup> Second, there were companies that did business in Britain and then expanded overseas, extending their existing operations.<sup>27</sup> There were many more free-standing companies than any other type of British foreign direct investment. The companies were registered in the United Kingdom and were established to do business typically in a single country abroad. Thus, there were Anglo-Argentine, Anglo-Australian, Anglo-Russian firms. Each usually operated in a single economic activity overseas, but together they covered the economic spectrum; they were in agriculture, manufacturing, and services (including public utilities, transportation, and banking services). The enterprises were both 'market-oriented' (to serve the host country markets) and 'supply-oriented' (to provide for British, or less often, third country needs). Their founders hoped to unite the abundant capital in Great Britain with the potentially or actually profitable opportunity abroad. Each had a board of directors in Britain, charged with managing the overseas business. The British headquarters was, however, at least at origin usually limited to the part-time board of directors and possibly one full-time secretary. In short, the head office did not amount to very much.

There were literally thousands of British free-standing companies. They attracted British capital, but also French, German, Belgian, and other foreign investors. The firms, however, were the investors abroad. The free-standing companies were frequently grouped in loose clusters – clusters that were often overlapping. A single firm might be

classified in a handful of different clusters. The principals in the clusters provided a range of services to the free-standing companies.<sup>28</sup>

There were British free-standing companies in many different activities from rubber in Malaya to copper mining in Russia, from cattle ranches in the United States to nitrate mines in Chile, from railroads in Brazil to hotels in Egypt, from mortgage companies in Australia to meat-packing in Argentina. The variety was extraordinary.

In addition, there were in Britain many companies that first developed their business operations with the home market preeminent and then invested abroad to pursue added markets and to obtain sources of supply. Such businesses included 'industrials', but also numerous British producers of services (trade, shipping, insurance, accounting, engineering, and so forth). The British producers of goods that invested abroad in the years before 1914 appear to have been heavily concentrated in the consumer products sector (soap, thread, and patent medicines are excellent examples).<sup>29</sup> All were trademarked. If the companies made producer goods, the home industries were often related to textiles (Bradford Dyers, United Alkali, H & G Bullock). There seem to have been very little British overseas business based on advanced technology. The crucible steel makers – which had major technical advantages – appear to have had their advantage in long experience rather than especially new developments.<sup>30</sup> Four examples of British 'high-technology' companies that did invest abroad in this era are: (1) Courtaulds (rayon); (2) Burroughs & Wellcome (drugs); (3) Brunner, Mond (alkalies); and (4) Marconi (radio installations). The first case was in synthetic textiles (and the technology here was developed in part outside Britain or with the aid of foreign ideas); the second was of a company founded by Americans, which sold patent medicines as well as ethical drugs; the third was a firm that was part of a Belgian multinational enterprise (and it was the latter rather than the British one that was at the centre of the multinational business behaviour); and the fourth was a company founded by a man with an Italian father and a British mother (it was not a 'purely' British enterprise), and moreover, although radio was new, economic historian Hugh Aitken could write of the 'technological conservatism' of the Marconi organisation and that the technological leadership Marconi once held was already 'shaky' by 1914; 'confident in its technical supremacy, it [the Marconi organisation] had failed to mount a sustained research program'.<sup>31</sup>

It has often been assumed by American students of multinational enterprise that textile companies did not become multinationals. Yet, the largest British textile enterprises were engaged in overseas direct investments. By 1914 J. & P. Coats had mills in the United States, Canada, and Russia.<sup>32</sup> English Sewing Cotton Co. produced through affiliated companies in the United States, France, and Russia. Linen Thread Co., Ltd., had factories in the United States and France.<sup>33</sup> The Fine Cotton Spinners' & Doublés' Association acquired around the



turn of the century 'a dominant interest' in its most prominent French competitor, La Société Anonyme des Filatures Delebart Mallet Fils.<sup>34</sup> Bradford Dyers had a major plant in the United States and one in Germany. Naim Linoleum (linoleum is made of jute or burlap – and thus can be classified as a textile) had factories in the United States, France, and Germany.<sup>35</sup> This is only a small sample of the British textile plants abroad. The host country list – the United States, Canada, France, Germany, Russia – is, however, worth noting.

British businesses also integrated backward to obtain needed raw materials, from cotton seed and palm oil (by Lever) to crude oil (by the 'Shell' Transport and Trading Co.), to iron ore (by Consett and Dowlais).<sup>36</sup> It was apparently even more common for British enterprises to use the free-standing firm for investments in basic inputs and other agricultural products.

Prominent among the 'service' sector multinationals were trading companies.<sup>37</sup> Often trading houses set up free-standing companies (combining the two forms). Likewise, men involved in overseas shipping frequently were associated with free-standing units.<sup>38</sup> So, too consulting and managing engineers had responsibility for managing free-standing mining companies.<sup>39</sup> As yet we know little about the role of the British overseas banks in assisting the expansion of British business abroad.<sup>40</sup> We do know that British banks abroad were a significant aspect of British business overseas.<sup>41</sup> We also know that many of the British international and imperial banks began as free-standing companies.<sup>42</sup>

In my *Economic History Review* article, I outline ten cluster sets that united British free-standing companies. These clusters and others need more attention. While most, as indicated, involved a very tenuous coupling of companies – joined by a functional service provided to the enterprise (promotion, engineering, accounting, services) – some cluster sets could be tighter and then we move to a description of the pivotal service firm as a multinational enterprise.<sup>43</sup> We need to think about the nature of influence and control, influence that is specific to particular functions (finance, construction, engineering, purchasing, marketing) and control (which determines or has the potential to establish overall administrative direction).<sup>44</sup> Faithful and effective performance in a single function might be simpler for a British business to achieve than full internalisation.

While the two basic forms of British overseas business before 1914 appear to have been the free-standing company and the enterprise that evolved from a home base, two other variants in origin have been identified. The first is what Geoffrey Jones has called the migrating multinational.<sup>45</sup> This is a company that began with a headquarters in one country, invested in Britain, and then became over time a British-headquartered multinational. The second variant is more difficult for me to incorporate in my frame of reference. This is a firm established abroad (with no UK registration) that attracted both British capital and

British management. It is not, by my definition, a free-standing firm, since it did not have a legal headquarters in Britain; it was not a company investing over borders. Yet, some have felt this type of activity should be included under the category of British business abroad.<sup>46</sup> Frequently, companies set up abroad became free-standing ones with British registration and then the free-standing company was dissolved, to be again replaced by a local firm. Sometimes, a free-standing company was set up anew and then the place of incorporation migrated abroad. My research suggests (tentatively) that when the last step occurred, the administrative control from Britain either weakened substantially, or terminated; what was once a direct investment became a portfolio one.<sup>47</sup> The 'British' management was by immigrants or expatriates – if it persisted. Some overseas-registered companies seem to have been established by British trading houses that provided their management and arranged their financing. Can it be said that such companies are part of a multinational enterprise in which the trading house provides the administrative guidance? The trading house, in turn, had the UK head office.

If we were able to identify a company *registered* abroad, with a concentrated ownership in the United Kingdom that provided a British 'head office' and assumed a 'managerial role' but had no 'operations' by the unincorporated head office – I would be prepared to call this a 'free-standing firm – variant I'.<sup>48</sup> More research needs to be done on the distinctions between British- and locally-registered firms and the management of the business institution.<sup>49</sup>

One significant British multinational captured aspects of three of the four categories, but, none the less, could be classified in one of them. Borax Consolidated, Ltd., by 1914 was a major British multinational – with a headquarters in London and operations in Britain, North and South America, and Europe. It was a vertically and horizontally integrated international enterprise with a legal and administrative headquarters in the United Kingdom.

Its genesis was when an American went to England – seeking markets and monies. He met a Britisher. What evolved was a merger of the British Redwood and Sons and the American's far more extensive operation. A headquarters was established in the United Kingdom, as was a British holding company. For Redwood this was backward vertical integration. I am prepared to call the new holding company, a *British* multinational enterprise. Yet, even though the legal and administrative head office was in Britain, the largest stockholding in the parent company was by the American. The parent was to integrate operations (uniting the British and American businesses), but also to raise capital in Britain for the entire business. While the new British enterprise was clearly not a free-standing one, it bore resemblances to many such companies. It had a prestigious chairman of the board – brought in to encourage Britishers to invest. And, when another British 'free-standing company' shifted its headquarters from London



to New York, the principal American stockholder in the borax company suggested that it follow suit. It did not. London remained the headquarters for not only the British and American, but the firm's newly-acquired worldwide business operations. Eventually, in 1913, the American was forced out of the business (and sold his shareholdings).<sup>50</sup> It could be argued (although I do not want to do so) that this was a migrating multinational: clearly, however, the insights and recognition of the existence of migrating multinationals helps us understand this British business abroad.

The idea of the migrating multinational provides even more insights into the activities of another giant British multinational enterprise (albeit I would argue that this firm did not become a *British* multinational until the 1920s). The British-American Tobacco Co. (BAT) came into being in 1902, as a part of a division of market agreement that followed American Tobacco's aggressive attempt to penetrate the British market. BAT at origin was owned two-thirds by American Tobacco and one-third by Imperial Tobacco, and had operations worldwide; it could not sell in the United States nor in the United Kingdom, but had export-related activities in both countries, and most important, it had a London headquarters. At the start, its top management seems to have been American. In 1902, it was an American business abroad. In time, the American stock ownership was reduced, the American management cut back, the home office well established in London, and this company became a British multinational (a migrating multinational enterprise).<sup>51</sup>

I am less sure that when a free-standing registered company shifted to foreign registration (as was often the case) that there was retained British direct investment characteristics. Thus, Otis Steel, an American company, was acquired by a British free-standing company. For years it was a British direct investment in the United States. In time, however, the British headquarters had seemed superfluous. The British-registered company was dissolved. A British accountant joined the US board of directors, presumably representing British investors. When the British registered company was dissolved, I would suggest that the *company* that had made the direct investment was also out-of-the-picture; now the individual British investors had portfolio rather than direct investment stakes (despite the accountant who represented their interests).<sup>52</sup>

In considering British business abroad, we must have a flexibility in evaluating what we find. We need to inquire why was the British free-standing company more common than the British enterprise that developed its operations abroad out of an existing business in Britain? What happened to the free-standing companies through time? How did they deal with the problems of managing business overseas? Why did consumer goods industries predominate in those British businesses that went abroad? Why was the textile industry so visible in British business abroad? To what extent was there foreign direct investment in

raw materials and foodstuff production? Why did the trading company take such a key role in diffusing British business abroad? What exactly was the role of banking institutions? What insights does the paradigm of the cluster set provide? What do the discoveries of migrating multinationals tell us about British business activities? Is the transfer of registration overseas an aspect of the migration of business headquarters? What insights are cast on British managerial performance overseas?

The home country influences outlined earlier in this paper help us to start to answer some of these questions. Factor costs: British capital was abundant; the relative cheapness of capital meant that the British had the opportunity (the incentive) to invest it elsewhere around the world where the returns were higher than at home. Free-standing companies were the institutional device to maintain control. Britain was industrialised; it had been the first industrial nation. Britain used its technological advantage in textiles abroad – and on occasion British multinationals borrowed abroad to overcome technological deficiencies. There was a high income domestic market in which consumer goods had been sold; the textile industry had grown first and foremost in that market. Many British investments abroad were designed to provide for the domestic market. But, the geographically small British domestic market was inadequate as a training ground for managers. The family firm without a well-developed managerial structure persisted in Britain. British companies had problems operating abroad. The free-standing firm was a compromise and may in many cases have substituted for British firms that apparently found the extension of management internationally a difficult proposition.<sup>53</sup>

Since Britain did not have 'universal' banks, it was often 'the investment group', with a trading company at the centre that assisted British business abroad.<sup>54</sup> Britain was a small island, dependent on international trade, which meant the emergence of well-developed and numerous trading companies with important roles in developing British business abroad.

Lack of certain basic natural resources (plus demand for them) encouraged not only trade, but also British business investment abroad. The investment, however, was highly selective and more needs to be done on the institutional structure and management of British mining and agricultural investments abroad and especially on the management of the marketing of the output.<sup>55</sup> Many British direct investments in railroads were associated with primary product procurement.

Scots abroad often ran British overseas investments from Burma to Canada to Chile. The overseas Scot provided the British company with a familiar dependable representative abroad. Culturally, Britain is frequently perceived as 'insular', and smug. A number of years ago, however, Charles Wilson pointed out that Unilever and Imperial Chemical Industries in the 1920s had involved a merging of multi-



national founders.<sup>56</sup> So did Royal Dutch-Shell much earlier. The more one deals with the British international business community, the more cosmopolitan it seems.<sup>57</sup> It is a paradox that contrasts with the stereotype – although it has long been recognised that British business innovation was promoted by ‘outsiders’ rather than by those in the mainstream of British life.<sup>58</sup> None the less, the insularity does appear to have created in many instances constraints on British management abroad,<sup>59</sup> constraints that the many Scots abroad could only partially rectify.

### *German and American Multinationals*

The differences between British and German multinationals were vivid, yet, as we will see, there were similarities. There was not the same mix of the two (or four) varieties of German and British business abroad. There seem to have been few (or certainly far fewer than the British, in relative terms) German free-standing companies that operated in foreign countries – at least this is my present view – though the subject needs more investigation, especially as relates to public utilities, transportation, and raw material procurement (some of the German investments in US phosphate mining, for example, seem to have been by free-standing companies). Migrating multinationals do not appear to have been a particularly important feature in the origins of German multinationals (albeit could the Rheinische Stahlwerke AG be seen in these terms – it was established in 1869 by Frenchmen and Belgians and headquartered in Paris;<sup>60</sup> and what about Allgemeine Elektrizitäts Gesellschaft? could it be considered a migrating multi-national? its predecessor was part of an American business abroad).<sup>61</sup> I have not been able to identify *independent* German companies registered in the host country, with German capital and management direction *from* Germany (there were, however, numerous firms established by German immigrants and registered in the host country, but these either fit into the category of German multinational enterprise – where the immigrant represented a parent firm abroad – or were separate businesses of the immigrant and *not* part of a German business abroad, not a foreign direct investment). We need more study, however, of third-country registrations – London-registered companies that operated in Argentina (for example) – that were German-owned and probably (in the host country) German-managed. The London-registration seems to have been to aggregate capital, to have a convenient operating framework, but where was the real ‘headquarters’? In a German city? I do not know, but that would be my hypothesis. If so, this might well be part of a German multinational enterprise expansion.

There were many German companies that began to do business in Germany and then based on their advantage at home, extended their business abroad, typically to reach foreign markets and to obtain raw

materials.<sup>62</sup> Such investments included many in public utilities, designed to *sell* German electrical equipment. There were also numerous German trading companies – mercantile houses – that had outlets throughout Europe and in addition appear in locales from Guatemala to Turkey.<sup>63</sup> Especially important were the German metal traders.<sup>64</sup> And then there were the German banks active in Europe, North and South America, Asia, and Africa, encouraging and representing German business abroad.<sup>65</sup>

The extent of German-managed enterprise in foreign countries in the pre-First World War years is just being deciphered; there are studies of German foreign direct investment in the United States, in Great Britain, and elsewhere.<sup>66</sup> What seems evident is that unlike the British ones, German multinationals were particularly active abroad in ‘high technology’ products – especially in the chemical and in the electrical industries.<sup>67</sup> German companies also operated abroad in iron and steel manufactures.<sup>68</sup> They were involved in capital goods industries. German industrial enterprise took the initiative in world markets – exporting, setting up marketing organisations abroad, and establishing foreign manufacture, and foreign companies that would buy German output.

The British – as we have seen – excelled in trademarked consumer products. The Germans also used the trademark as an important property right in their business abroad. Yet, the use may have been different. In the United States Bayer, for example, sold aspirins, which it would claim was its trademarked product. The drug was sold through prescriptions; however, increasingly *before 1914*, consumers bought it over-the-counter and decided on ‘self-medication’. Bayer advertised widely, *but* to physicians and to the trade, rather than to the final consumer. Ultimately (in 1921), Bayer would lose the trademark Aspirin in America; the reason the court gave was that before 1915, the company had let the retail druggist (or the manufacturing chemist, who bottled or transformed powder into tablets) sell to the consumer *without* the Bayer name on the product. Thus, in the trademark case, the court ruled that for the consumer the word had passed into the public domain.<sup>69</sup> Germans invested abroad in chocolates – a consumer product. Here again, the product was trademarked, but once again, Stollwerck in many instances sold not to the ultimate buyer, but as a cooking chocolate to other producers.<sup>70</sup>

Actually, there were a surprising number of trademarked German consumer products.<sup>71</sup> The A.W. Faber pencil was one. The German Faber firm by the 1870s was a multinational enterprise, with its main factory in Stein (near Nürnberg); a large slate facility at Geroldsgrun, Bavaria; branches in Paris and London; an agency in Vienna; and a pencil factory in Brooklyn, New York. In the early twentieth century, the American subsidiary, A.W. Faber, was advertising that the German company had manufacturing in Germany, France, and the United States. The idea that there were no (or few) German



consumer goods manufactured by German multinationals abroad is false.<sup>72</sup>

Like the British, there were some important German textile investments in foreign countries – in woollens and silk (not the textiles most typically associated with British overseas business) – albeit some scholars have found that German textile producers were not active abroad.<sup>73</sup>

Certain German industrial firms integrated backward to obtain raw materials. This was true of German iron and steel manufacturers.<sup>74</sup> Trading companies also appear to have made investments in producing activities abroad. Metallgesellschaft is an excellent example.<sup>75</sup>

German banks were ubiquitous abroad, aiding industrial enterprises in numerous manners. They were active, for example, in relation to the German search abroad for oil – in Romania and in the Middle East.<sup>76</sup>

Like the German multinationals, US multinationals often invested abroad to sell and to make goods, based on new technology and typically trademarked products (whether sold to producer or consumer).<sup>77</sup> In some of the same industries, American and German business both expanded abroad, but, in the main, the industries were different. The US-registered free-standing company existed (in Cuban sugar, for example), although it was of little significance in American business abroad in the pre-1914 years. Again, while I can identify some migrating multinationals (W.R. Grace started in Peru, and then became a US-headquartered business), that pattern was atypical. In both the American and German cases, the prototype multinational was a firm that started at home and then expanded over borders – either to reach markets or to obtain sources of supply. Yet, in the German evolution of multinational enterprise, the role of the giant banks was key, whereas in the United States, to be sure private banks had London and Paris outlets (principally to encourage the flow of European monies to America), but US national banks could not branch abroad until after the passage of the Federal Reserve Act (1913). Thus, not only did the United States have virtually nothing comparable to the numerous British overseas banks (the International Banking Corporation established in 1902 is the one possible exception), it had nothing that was anywhere near equivalent to the Deutsche Bank or the other great German banks.<sup>78</sup>

Here again, home country characteristics help explain why the German and American multinational enterprise pattern differed from that of the British. Clearly, in each case, factor costs were different. German enterprise could draw on an abundance of skilled workers and professionals; in products that were skill- and research-intensive, German business excelled and expanded at home and abroad. This was especially relevant in the dyestuff sector of the German chemical industry, where literally thousands of products were produced in small batches by large companies, heavily manned with skilled and often university educated personnel. Americans found labour costs high

and substituted capital for labour. Mass production techniques used unskilled labour. American companies expanded abroad in sewing machines, harvesters, and mass produced automobiles. America had abundant oil; new refineries had large throughput; the country became a large exporter of refined oil, and Standard Oil became a major multinational enterprise.<sup>79</sup> Differences in factor costs in part accounted for the differing German and American advantages. In Alfred Chandler's terms, economies of scope and economies of scale created differences in cost advantages.<sup>80</sup> By 1914, Germany ranked second and the United States ranked first in world manufacturing (Britain was third). The growth of industrialisation spurred new enterprises that quickly expanded over national frontiers. It was often in the newest and most technologically advanced products that German and US businesses invested abroad. Technologically innovative enterprises abounded, and it was these companies that introduced the new processes and products abroad (through foreign direct investments).

German and US firms sold first at home and then abroad. In both Germany and the United States, administrative hierarchies in business organisation emerged more rapidly than in Britain. In Germany, however, the family firm seems to have lingered longer in sizeable enterprise (and in business abroad) than was the case in the United States. If family members went abroad, they often supported German business expansion (George Merck in America, for example). The Germans, like the British, and far more than Americans, found business over borders very difficult. The German electrical companies' problems in controlling their business investments in the United States are a case in point.<sup>81</sup> In the United States, where scale economies were key, the huge and heterogeneous US market offered a superb training arena for business managers who would move abroad. The ever-present German bank in domestic business reflected itself in the international scene.

US and American states' banking laws sharply restricted American banks in their expansion at home (and abroad). We need more information on German business abroad and natural resource procurement; there were many German foreign direct investments in production of primary products. The Germans had little oil – and German companies, accordingly, desired to fill domestic needs. By contrast, the US international oil industry began based on abundant oil and refined oil exports. The evolution of the German and US (and for that matter the British) international oil companies was entirely different. By 1914, one American tyre company (US Rubber) had begun to invest in rubber plantations in Sumatra; the British, Dunlop had invested in rubber estates in Malaya; did the leading German tyre company have similar investments? Many of the products required for the German economy – but not produced there – were obtained through German importing firms.

German professional education – the scientific training – had



immense impact on German advantage in world markets. American education was more practical, more engineering-oriented. This seems to have had an influence on the firms in America that had advantages and that moved abroad. The connections in the German case are very specific; in the American one more general.

Germany was a net exporter of capital, but its growth at home absorbed substantial investment. None the less, that it was a net capital exporter may help explain the important role of banks in its international expansion. The United States before 1914 was a net importer of capital. Its portfolio investments abroad (1870-1914) were very small compared with its foreign direct investments. US companies moved abroad not to locate better financial returns, but to reach markets and to obtain sources of supply. When we compare American and British business abroad, this difference is vivid. In Britain, there was substantial surplus capital and rates of return were higher overseas. The evidence in the British case indicates that foreign portfolio investments were larger than foreign direct investments. The free-standing company served to direct and to monitor the use of passive investors' capital abroad. Since America was a net importer of capital, there was generally little need for the free-standing company form.

In Germany, because cartels were perfectly acceptable, there existed some foreign direct investments by cartel representatives to encourage exports.<sup>82</sup> Cartels may have also deterred some foreign direct investment. The restraint of trade rules in America encouraged mergers; domestic conditions required integration of operations; integrated business abroad was a natural extension.

German business crossed over into neighbouring countries; Austria-Hungary – especially the Austrian part, where the language was German – was especially attractive. In some ways, Austria-Hungary may have been to German enterprise rather like Canada to US business, with German business 'spilling over' the border. Likewise, there were sizeable German investments in other nearby countries; transportation and communication links within Europe had by 1870-1914 become very easy – and enterprising German businessmen often made their presence felt – from France to Switzerland, and in many other European countries. But German businesses made their greatest direct investments in United States (in part because that was where there was the major German immigration). American business abroad went first and foremost to nearby countries (geographically nearby such as Canada, Mexico, and the Caribbean) and culturally nearby (such as Canada and the United Kingdom). German emigrants were very significant in developing German business abroad. There were German settlers from China to Russia. (Odessa in 1910, for example, had a German community of 12,000).<sup>83</sup> There was nothing at all similar with American emigrants; the United States was a country of immigrants not emigrants. Germans abroad created familiar condi-

tions for German business in foreign lands and helped overcome some of the difficulties of doing business in strange lands. (As noted earlier, American businessmen learned at home how to deal with 'foreigners' in the domestic markets, since American business was already selling at home to a nationally diverse population).

Clearly, 'the culture' of economic growth influenced German and American businesses in their expansion over borders. There was a vitality in the German and American people that reflected itself in the spread of business abroad. Whereas in Britain at least some of the business activities overseas (particularly those of the free-standing companies) involved a conscious reallocation of resources – at least capital resources – from domestic to international use; in the German and US cases, business abroad was more typically complementary to that at home.

### *French, Swedish, Belgian, Swiss, and Dutch Business Investments Abroad*

French business abroad was extensive in the years 1870 to 1914; while substantial work has been done on French finance, we are slowly learning about the institutional mechanisms by which French industry extended itself over borders.<sup>84</sup> The St. Gobain glassworks as early as the 1850s had built a branch plant in Germany; by 1900 it was a multi-plant enterprise in that country.<sup>85</sup> Before the First World War, St. Gobain was also manufacturing in Italy, Belgium, Holland, Spain, and Austria-Hungary.<sup>86</sup> (How aggressive it seems compared with Pilkington; that British firm had manufacturing abroad in only one country – Canada).<sup>87</sup> The French family firm, Michelin, had by 1914 factories in the United States, Italy, and Great Britain (its rival, Dunlop, in 1914 manufactured in Germany, France, and Japan; no German nor US tyre company had three foreign manufacturing plants in 1914).<sup>88</sup> French car companies also had a collection of business investments abroad.<sup>89</sup>

Most extensive, however, were the international operations of Soci t  Schneider et Cie. Claude Ph. Beaud has done remarkably well in deciphering its business abroad – from Italy to Chile to England (all disappointing ventures). Often the firm's participations were minority ones, but they were designed for business purposes – that is, to obtain orders for Schneider. In Morocco, Schneider set up a diversified group of companies, associated with Moroccan development – from mining companies to gas and electric ones. In Argentina, it made major investments, with the hope of obtaining orders from the newly-established firms. It invested in iron-mines in Lorraine and collieries in Belgium. In 1911 it participated in developing the Russian armaments industry.<sup>90</sup>

I have found a surprising number of French businesses that operated in the United States;<sup>91</sup> more operated in Russia; Spain was attractive to French businessmen (often 'operating through London-registered



companies).<sup>92</sup> French free-standing companies seem to have existed, albeit the extent of them is unknown.<sup>93</sup> French trading companies need investigation,<sup>94</sup> as do French banks.<sup>95</sup> John McKay's 'The House of Rothschild (Paris) as a Multinational Industrial Enterprise, 1875-1914', breaks new ground in the study of French business abroad.<sup>96</sup> Where ever there was gold, French businessmen were interested; thus, students of British business in South Africa have encountered French (and German) involvements.

The French always complained that German business had grabbed, in international business, what was French technology (in silk, for example). The French were the innovators in rayon – but initially the prominent multinational in rayon was the British-headquartered Courtaulds. The Héroult process in aluminium was a French one – and yet, American, German-Swiss, and to a far lesser extent British companies took precedence over French business abroad in this new industry. In a number of different industries where the French excelled, we know little about why or how French business enterprises took, or failed to take, the initiative in business abroad. Often, in the French case we are talking about family firms, not publicly-owned companies. Yet, France was a large capital exporter in the years before 1914 (second only to Great Britain) and it does seem that some (and perhaps much) of this foreign investment was in the form of direct investment (business investment), probably more than is generally assumed.<sup>97</sup>

Ragnhild Lundström has documented the remarkable expansion of Swedish business abroad. Swedish companies (often based on German technology) spread internationally – seeking new markets, setting up plants abroad. Banks played a crucial role, in assisting Swedish international business and Swedish entrepreneurs who went abroad. Swedes established operations in Russia; they financed these ventures in European capital markets; often, the Swedes settled in Russia. Can this be called 'Swedish' business abroad, or Swedish direct investment? Once the migration took place, should this not be described as a Russian business, financed by European (portfolio) investment? Such activities bear resemblance to the Britisher, who went abroad, set up business in a country overseas, and then called on home capital for financing. It appears frequently that in neither case was there a real European head office administering operations. The investment from Europe seems to have been pure finance. Here, again, family associations must be traced.<sup>98</sup>

Lundström identified a hybrid-type operation. A man went abroad to do business, set up a manufacturing company, and got full equity financing from the Enskilda Bank. Is this a foreign direct investment by the Bank? The bank had control. Yet, the initiative came from the trusted entrepreneur, who was in a business abroad that had nothing to do with banking. How common was such a pattern?<sup>99</sup>

There were numerous Belgian businesses in foreign lands that are very well known – from Leopold's extensive activities in the Congo to

Solvay & Cie.'s international business.<sup>100</sup> Belgium had heavy industry. Société Générale de Belgique made direct investments in Spain, Italy, France, Austria, Russia, China, Mexico, Brazil, Argentina, and of course, the Congo, in railroad construction, to help secure markets for Belgian industry. The Société Générale also invested in an extensive chain of banks that did business outside of Belgium.<sup>101</sup> There were formidable Belgian foreign direct investments in tramways, especially those of the Empain group.<sup>102</sup> Individual Belgian entrepreneurs had many direct investments abroad.<sup>103</sup> The complex Belgian direct investments in the Russian iron and steel industry have been well documented by Ulrich Wengenroth.<sup>104</sup> More modest investments were those of Gevaert, an Antwerp maker of photographic paper. His production began in 1892 and by the eve of the First World War, Lieven Gevaert had opened branch distribution depots in Paris, Vienna, Berlin, Milan, Moscow, London, Buenos Aires, and Rio.<sup>105</sup> If Solvay & Cie.'s and Gevaert's business abroad seem comfortable in the conventional model of multinational enterprise, many of the other Belgian businesses outside the country do not conform as neatly. Robert Liefmann, many years ago, concluded that the big banks in Belgium 'have had a greater influence upon the initiation and financing of enterprises [at home and abroad] than in any other country'.<sup>106</sup> By all accounts, Belgian-managed business over borders was extensive. How and where did banks find managers that were appropriate to the task to be performed abroad? We need more studies on how the managerial structure emerged. Likewise, we require more evidence on where Belgian business went; from all appearances, Belgian enterprise was truly multinational; yet Solvay & Cie. excepted, it was conspicuously absent in the United States before the First World War.<sup>107</sup> Is the reason, that Belgian industrial advantages were not advantages in the United States?

Swiss multinational enterprise, likewise, requires far more attention. Many Swiss businesses invested abroad – in silk, cotton, wool and embroidery, canned goods, chocolates, pharmaceuticals, electro-technical and electrochemical industries, machinery, and so forth.<sup>108</sup> By 1914, there were five Swiss hotel companies that ran hotels in Italy, France, and North Africa.<sup>109</sup> The common feature of all Swiss investments was always quality goods and services.<sup>110</sup> If Ernest Himmel's figures on 77 Swiss companies are to be trusted, in 1913 they had the most invested in France, followed by 'North America' (principally the United States), Germany, and then Italy.<sup>111</sup>

According to an obituary of Robert Schwarzenbach (1839-1904), this Swiss pioneer in silk power looms had by 1904 established silk manufacturing plants not only in Switzerland, but in the United States, Italy, France, and Germany.<sup>112</sup> When in 1900, Nestlé built its American factory in Fulton, New York, a local town directory announced that 'The milk received at the Fulton factory is subjected to the same high test as has been observed for 30 years and more at the Swiss factories of



Henri Nestlé at Vevey, Bercher and Payeme, as well as at the Norwegian factory at Christiania, and those at Edlitz, Austria, and Tutbury, England'.<sup>113</sup> Brown, Boveri & Co. – one of the largest manufacturers in Switzerland – had by 1914 'branches' in Italy, France, and Norway.<sup>114</sup> This is merely a small sample of Swiss multinational enterprises, in different industries. Where did the Swiss find management for all these businesses abroad? How often were family connections significant? How were these plants administered over borders? What role did Swiss banks play? There are many unanswered questions. Throughout the period Himmel studied (1898–1919), the Swiss businesses he monitored had greater investments *outside* Switzerland than at home.<sup>115</sup>

Whereas in the case of Switzerland, I identified very few 'free-standing companies', by contrast, this form is prevalent in the case of Dutch foreign direct investment.<sup>116</sup> Dutch finance has captured substantial attention, as have certain Dutch businesses abroad (The Royal Dutch Company and its successor, Royal Dutch-Shell, for example). Yet, we require more information on the nature of Dutch business abroad (1870–1914).<sup>117</sup> In Holland, private banks set up administrative trusts to hold American railroad securities, which securities were, in turn, owned by Dutch small investors. The effect was concentrated ownership that gave the banks a say in the conduct of the business abroad, at least *vis-à-vis* the financial function. Was this, therefore, foreign direct investment? The railroads in the United States were American-incorporated, American-administered, but the Dutch bankers often had more influence (at least on financial matters) than a typical 'portfolio' investor.<sup>118</sup> How does the student of multinational enterprise view such investments? This brings us to the matter of influence and control, and 'functional' relationships to which I will return in the conclusion.

In short, France exempted, all these contestants for fourth rank as homes to foreign direct investors were geographically small, relatively high income countries. In each case the nature of domestic business operations shaped business abroad. There seem to have been identifiable business elites (sometimes cosmopolitan in nature) that can be tracked in connection with the business abroad; some, but certainly not by any means all, of these business elites had banking connections. All of these countries except Holland and Switzerland appear to have looked more east than west in their investments and had larger direct investments in Russia than in the United States. Beyond this, it is difficult to generalise about this very diverse group of home countries, and I will leave that for future researchers. How many – aside from the Swiss – had greater investments abroad than at home?

### *The Other Multinationals*

Canadian business abroad went typically across the border into the

United States, albeit it did extend further into the Caribbean and Latin America. In public utilities particularly there was a marked expansion of Canadian business abroad.<sup>119</sup>

Austro-Hungarian businesses across Empire borders were few and isolated, but there were some important ones. The Austrian Hermann Schmidmann, with his direct investments in Germany and the United States, provides a good case in point.<sup>120</sup> Often, multi-plant Austro-Hungarian enterprises became 'international', after the break-up of the Empire! Fiat was exceptional among the modern Italian businesses in this period to invest abroad; it had manufacturing branches in Austria, the United States, and Russia by 1913.<sup>121</sup> Russian and Bulgarian fire insurance companies were before 1914 multinational enterprises. 'Bulgaria', First Bulgarian Insurance Co. of Roustchouk, Bulgaria, in 1913 operated in England, Germany, Belgium, Bulgaria, France, Holland, Spain, Turkey, and the United States.<sup>122</sup>

In sum, such debtor countries and Empires as Canada, the Austro-Hungarian Empire, Italy, Russia, and Bulgaria were homes to multinational enterprise.<sup>123</sup> The business abroad that was headquartered in these places tended, in the case of Canada, to be very limited as to where it went abroad, and in all these 'homes' tended to be quite restricted in terms of the economic sectors represented.

### *The Host Countries*

Of all the hosts to foreign direct investment, the United States was in 1914 by far the most important. It was a high income market, surrounded by a high tariff wall; it was rich in natural resources; and the opportunities for profit seemed immense. I will not give rankings beyond this, for I believe that any attempt to try to give the standing of host countries is at this stage premature.<sup>124</sup> Part of the problem in ranking hosts to foreign multinational enterprise is the lack of consensus on what is to be included as 'foreign direct investment'. In this article, I have tried to indicate what I believe should and should not be included. Until there is consensus in definition, however, country ranking will lead to nothing but frustration. This, however, is only part of the problem: each region or country has been studied separately, without comparative evaluations (scholars are trained as experts in European history, Chinese history, South African history, and so forth).

Without question, wherever a European or North American multinational enterprise invested, circumstances in the host country influenced its behaviour. It is, however, doubtful that each host country was so distinctive as to transform or to homogenise the foreign business, though over time, host country consumers might not be aware they were buying products of a foreign-owned firm.<sup>125</sup>

The evidence suggests that since a foreign direct investment by definition has a headquarters in the home country, the strategies of the



firm (at least initially) can be said to be more shaped by home rather than host country considerations, albeit clearly both play an important role and it goes almost without saying that the characteristics of the host country – from size of market to resources available, to political conditions (including tariff policies) – determine at the start whether a company will invest, in what sectors it will invest, and the legal forms of the investment. These matters also shaped the pace and the course of the expansion (or contraction, in some cases) of the business. A number of business investments of this era were 'joint-ventures' of one type or another – and the joint-venture relationships varied substantially, based on host country considerations.

Such comments accepted as a given, none the less, it seems to me that there are comparisons that can be made and that if one begins with the firm and its investments, there are patterns that transcend host country and regional impacts. One of the virgin territories for students of multinational enterprise relates to how companies of different nationalities performed differently in a host country.<sup>126</sup>

More is needed on the relationships between trade and emigration patterns in considering why particular investors chose to invest in particular host countries. As I study European-headquartered firms, I find myself asking many questions about 'partial' relationships – how these 'groupings', clusters, functional ties, reflected themselves in the management of business abroad in different countries; this seems to need more scrutiny.

### Conclusions

While substantial research has been done on the history of multinational enterprise, much more is clearly required. The general, comparative research is particularly important to the British business historian, for it poses new questions and presses the historian toward a recognition of what is and what is not distinctive about the British experience. Research has made it evident that it is useful to look at the behaviour of business over borders. Too often there have been two constraints. The first is the assumption that the findings on the history of American business abroad (the American model) can be rigidly applied to business headquartered in Great Britain, Continental Europe and Canada. The second is that multinational enterprise and foreign direct investment are identical.

Let us look at each in turn. The application of the American model has provoked exciting new research. British business historians have been particularly active in this respect. Often, there is congruence in the behaviour of multinationals from different countries. However, the newer research shows considerable differences in the development of multinational enterprise in the pre-1914 years from one country to the next. The British experience is not exactly coincident with the American one. The modes used (free-standing enterprise versus

operating base for example; involvement of banks, as another example) were different.<sup>127</sup> Whereas in the American case, by 1870–1914, it was the large-scale enterprises with administrative organisations that were the innovators in business abroad,<sup>128</sup> in the case of many British and continental European companies we are often describing family firms and kinship rather than corporate linkages over borders. Even in the German instance, where certain of the electrical and chemical companies had huge domestic employment and hierarchical managerial organisations,<sup>129</sup> at the same time, there were many family firms with business both at home and abroad.

These differences reflected themselves in motives. Because America was a net importer of capital, because profitable opportunities were available at home, in 1870–1914, only in the rarest instance was the motive for foreign direct investment purely financial. In countries, particularly Great Britain, where there were 'free-standing' companies often the reason for a specific business investment abroad was purely and simply a higher return in the foreign country, albeit the investment was designed as a managed business abroad. Some free-standing companies were established by promoters that arranged the business investment abroad with the sole purpose of their own quick personal financial gain. Free-standing companies aside, the other rationales do not seem to vary. Thus, companies made foreign direct investment to obtain better representation abroad, to be closer to (and thus more responsive to) customers, to save on transportation costs, to get behind tariff walls (and on rare occasions other host government barriers to trade), to assure sales to an enterprise abroad, and to complement existing foreign direct investments. Some products do not travel well and must be made near the customer (for example, explosives, products that get stale, and beer in this period). Still other foreign direct investments were made to develop or to secure sources of supply. Some foreign direct investments were designed to obtain information. While these motives did not vary by home country, what varied was the relative importance of particular motives – and that needs further study.

One major difference between and among countries was the extent of the business abroad *vis-à-vis* domestic operations. American business at home was always larger than its firms' foreign direct investments. If Himmel is correct, by contrast, Swiss business investments abroad were greater than those at home; are there other geographically small countries that fit this pattern? British business historians need to ask of companies engaged in business abroad, what percentage of their assets, sales, and employment were at home and what percentage abroad?

America was a country receiving immigrants. While there were individual Americans who went abroad to establish businesses, by 1870–1914 this was not the principal pattern and the 'American model' of multinational enterprise correctly excludes such activity. In the case



of Great Britain (and some continental European countries), there was a dispersion – a worldwide spread – of business entrepreneurs. This has posed major problems for students of British multinational enterprise. British-born individuals spanned the globe; they went to the United States, Canada, Argentina, to Sicily, India, Hong Kong – and so forth. Some times they brought capital with them; sometimes, they established businesses using monies they had earned abroad. Sometimes they used locally available capital; sometimes they tapped British capital markets for their overseas businesses. I have argued in the introduction to this article (and elsewhere as well) that to fit the definition of multinational enterprise there must be *cross-border* control, or potential for control. The problem lies in defining 'home', in deciding, was there a *cross-border* activity? The Britisher who went to the United States and, in many instances, Canada settled in these countries. There was no ongoing foreign direct investment. Likewise, the Britisher who went to Argentina typically settled, but he often thought of Britain 'as home'. Since he actually settled, and if there was no British home office or British legal registration, I cannot (as indicated in the introduction to this article) refer to his managed business in Argentina as a British foreign direct investment. The matter gets far more difficult with the expatriate rather than the emigrant – with businesses in Sicily, India, and Hong Kong. Take the case of Benjamin Ingham, who spent most of his life in Sicily, but who kept his bank account in the United Kingdom and saw the United Kingdom 'as home'. In real terms, the United Kingdom was home for Ingham, even though his trading business was managed from his base in Sicily. What of British 'expatriates' in India and Hong Kong? They were conspicuously 'British' – white men in a non-white world. 'Home' was Britain: their children were educated there. Hong Kong was frequently a base for business elsewhere in the Far East, especially in China. How should the businesses of these expatriates (as distinct from emigrants) be treated by students of multinational enterprise? This question is important for several reasons: (1) how we define such business affects our statistics on 'British' capital abroad and particularly on British foreign direct investment; (2) in many cases, the expatriates in India and Hong Kong did seek capital in the United Kingdom. It seems to me that if there was no UK home office, the 'British' capital (the cross-border capital) invested in these expatriate ventures must be referred to as British portfolio investments; (3) even more important, from an institutional standpoint, what happened to these enterprises through time? When the individual entrepreneur died or went back 'home' to Great Britain, how were these ventures sustained? If there was some means of replenishing management through time in the United Kingdom, perhaps that can define a 'real' head office. The discussion of multinational enterprise pushes us to look not merely at the individual entrepreneur, but at the continuing managerial structure through time. The answers to these fundamental questions may help us in determin-

ing whether the business can legitimately be classified as a 'British' multinational enterprise. In any case, the operating characteristics and the administration of such expatriate businesses – as distinct from ones clearly headquartered in the United Kingdom – need further investigation.

An additional difference that emerges from the comparisons is associated with the 'partial' or functional relationships. Frequently, I found British and Continental European firms (or individuals joined with those companies) participated in business investments abroad, designed not to control the foreign enterprise, but nonetheless to capture a business opportunity. The business motive could be general, such as obtaining insider knowledge on how the foreign firm performed and whether there would be security of supply of a raw material, or it could be highly specific, such as an arrangement to handle the company's financing (the sale of a service) or a contract to sell goods or other particular services to the firm, or one to market the firm's output. Do such 'partial' relationships fit into the category of foreign direct investments? And if so in what manner? The investor often exercised influence (or even control) over a key function, yet in no way sought to run or even had the potential to manage or to control the entire foreign business. Such business investments usually have been dealt with in the literature as foreign direct investments and put in the context of joint-ventures, which seems reasonable.<sup>130</sup> And, what of the trading company – especially the British trading company – with an investment in a particular productive activity (beyond trade) abroad? Its earnings often came from the management contract (a sale of an important service), assured by the investment. It did have the potential to control the overseas enterprise, through the management contract. It seems to this author that the management contract may well be different from the purely functional relationships; in this case, the entire business of the 'joint-venture' is controlled, though the 'owners' of the business presumably had the power to void a management contract.<sup>131</sup>

The industries of key importance from one home country to the next were different. British business historians must ask why British business abroad was concentrated in particular industries and why certain companies in those same industries showed little interest in overseas business. So, too, the locales where investments were made differed by home country. The 'American model' would hypothesise that the firm goes first to the 'nearby' – defined not merely in geographical, but in cultural, linguistic, and political terms. Dr Geoffrey Jones has suggested to me that whereas American business went abroad initially to geographically nearby regions: Canada, Mexico, and the Caribbean (it also went to 'culturally nearby' ones: Canada and the United Kingdom), British business tended to favour the linguistically (the United States), but also Canada, Australia, and South Africa) and politically (imperial) 'nearby'. This needs more



verification with added research on British business investments on the geographically nearby European continent.

The performance of management abroad also differed by home country, and in a way that may well be amenable to systematic treatment. Indeed, I believe that the distinctive British and other home country characteristics – an inquiry into the home environment – can be used to explain not only many of the differences in the way (including ‘the why’) firms moved abroad and how they behaved once there, which firms went abroad, but in addition how they performed in foreign lands.

On the second and related matter, multinational enterprise and foreign direct investments are not the same. To repeat what I wrote at the beginning of this article, multinational enterprises make foreign direct investments – and they also do other things as well *vis-à-vis* a business abroad. Management of such a business (just as at home) involved financial decisions; it also calls for operating ones: hiring workers, supervisors, and managers; making choices on technology; selecting appropriate machinery; finding suppliers and purchasing (as needed) raw materials, parts and components, and other supplies, as well as the capital goods; deciding what should be bought and what should be made; and developing relationships with suppliers.

None of these decisions on inputs is ‘one-time’: management consists (among other things) of training those who are hired, altering technology choices as appropriate and as the learning process goes forward, maintaining as well as buying machines, changing ‘make-buy’ decisions, and educating suppliers. It involves coordinating and administering the inputs once acquired, organising work, assigning tasks. There is, thus, not only management of the purchasing functions, but of the labour relations, the engineering, and the production activities.

And then there are output decisions. Some of these relate to how much of a process will be done by the firm: does a mining company own a concentrator, a smelter, and a refinery as well? does a plantation company do any further processing? All of these new activities must be managed. And, then if the output is not used or further processed within the firm, how is the product to be marketed? does the company integrate forward into the marketing activity? the management of the marketing function is again not a given. All of these (and many more) management requirements accompany the establishment and development of business abroad. Financing the operation, the foreign direct *investment*, is but one facet (a single function) of what a business does abroad. Thus, students of the history of multinational enterprise must consider and ask questions about how a business abroad is managed, how managers perform; it must separate overall management from the ‘partial’ functional relationships. British business historians have only begun their task when they identify foreign direct investments.

A study of the history of multinational enterprise needs to look at firms extending a specific business over borders. We must ask of the

origins, why, which, how, and where did a firm invest? What were its options? A firm grows over time, and I find myself fully in sympathy with Mark Casson and others who view the multinational enterprise in terms of the theory of the firm.<sup>132</sup> As the firm moves over borders, we must look not merely at the basis for the entry, but the subsequent choices and strategies pursued. The dynamics are critical. We have figures on numbers of British companies in particular regions (the materials are not as rich on other nationalities), but we have far less information on how the business abroad was pursued and managed over time. How and where was the output marketed? In the British case, the void is particularly evident in relation to the free-standing firm.<sup>133</sup>

A crucial subject is the relation between trade and foreign direct investment. British business historians need to ask the relationship between both British exports and imports and foreign direct investment. In many instances, foreign direct investment encouraged further exports of goods and services; in other instances it substituted for exports; and in still others it encouraged imports. The effects on trade need to be systematically studied by home country, through time; were there differences by home country?<sup>134</sup>

We need more discussion of performance and measures of success. Geoffrey Jones has suggested that British business abroad was often unsuccessful in its performance. Comparative studies help British business historians pinpoint some of the problems British enterprise had as it moved overseas.

We are by training comfortable in dealing with national behaviour and while it is now relatively easy to write about the international operations of national firms,<sup>135</sup> it is far harder to deal with some of the more complex multinational relationships. Regrettably, I do not have space here to discuss the cooperative ventures over borders that disclose the cosmopolitan nature of pre-1914 investment patterns – yet these must be analysed, particularly in relationship to the management of the cross-border participations.<sup>136</sup>

Comparative research on the pre-1914 years is probably simpler than for the post-1914 ones, because in the years 1880–1914 there was little fluctuation in foreign exchange values and also some of the greater complexities that developed later had not yet emerged. It ought to be possible to put together legitimate comparative figures, not significantly distorted by exchange variations. Before, however, the number game is played and the definitions are fixed in stone, the first step for British business historians is to establish the institutional dimensions of their nation’s business over borders. This effort is greatly aided by the comparative approach that stimulates new questions. There seems no doubt that the business institution, controlling operations outside its home country, served as a key conduit of capital and also of production methods and new products, of personnel, technology, marketing arrangements, and managerial expertise. How it carried forth all these



functions within the firm – and using outside contractors – needs still to be charted. How it succeeded in its own terms (profits to the business) and in social terms (as an assister in economic growth and development at home and abroad) requires additional investigation. The research – while it explores home, and host country, circumstances – must concentrate on the business enterprise per se. A good start has been made, but the opportunities for further research are legion.

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#### NOTES

I owe a great debt to Alfred D. Chandler and Geoffrey Jones in the development of the ideas in this article. Likewise, I am grateful to Rondo Cameron for including me in his 'Bellagio group', which has broadened my horizons.

1. For statistical purposes, the US Department of Commerce uses a ten per cent equity interest to qualify. A ten per cent interest is always adequate for 'influence'; it may not, in fact – as this article will indicate – be enough for 'control'.
2. Such settlers are often referred to as 'foreign' investors. I believe that it is inappropriate to refer to their activities as a foreign direct investment, if there was no financial obligation to a headquarters in Sweden, Germany, or Great Britain.
3. Mark Casson, *The Firm and the Market* (Cambridge, MA, 1987), p.1.
4. Much of the huge 1977–84 literature on the history of European multinationals is summarised in Mira Wilkins, 'The History of European Multinationals: A New Look', *The Journal of European Economic History*, Vol.15 (1986), pp.483–510. An immense amount has been published subsequent to 1984. While Geoffrey Jones (ed.), *British Multinationals: Origins, Management and Performance* (Aldershot, 1986) greatly advances our knowledge of the history of British multinationals, there is still no comprehensive history. Stephen Nicholas has one in process, albeit it will be confined to industrial enterprises. Charles A. Jones, *International Business in the Nineteenth Century* (Brighton, 1987), provides an excellent introduction to the network of trading companies that evolved in nineteenth-century Britain. Likewise, S.D. Chapman's 'British-Based Investment Groups Before 1914', *Economic History Review*, 2nd series 38 (1985), pp.230–51, has stimulated new perspectives on British business abroad. While the work of Peter Hertner and others has greatly enlarged what we know of German multinational enterprise, there is once again no overall history. Likewise, although Ragnhild Lundström, 'Swedish Multinational Growth before 1930', in Peter Hertner and Geoffrey Jones (eds.), *Multinationals: Theory and History* (Aldershot, 1986), pp.135–56, covers the history of Swedish multinational enterprise, there is no book-length synthesis. Alfred D. Chandler's forthcoming history of modern managerial enterprise will be immensely helpful on the rise of the major British and German multinationals.
5. Harm Schröter is doing research on multinationals with headquarters in small European countries. There are also many firm-, industry-, and host-country-specific studies of French, Belgian and Swiss business abroad.
6. Robert Vicat Turrell and Jean Jacques Van-Hellen, 'The Investment Group: The Missing Link in British Overseas Expansion before 1914?' *Economic History Review*, 2nd series 40 (1987), p.269, scold Chapman for his generalisations and write 'In view of the historical specificity of economic developments in Africa and Asia ... it would have been more profitable to emphasise the different paths of

development of business enterprise'.

7. Because of (1) the breakdown of the international gold standard; (2) the loss of the clear primacy of Great Britain as the great creditor nation in the world; (3) the defeat of Germany and its effect on German business abroad; and (4) the shift of the United States from debtor to creditor country in international accounts. Albeit there were some: For the Russian government's business investments in China, see C.F. Remer, *Foreign Investments in China* (1933; reprint, New York, 1968), pp.89, 558–9. The Russian bank in Persia was owned by the Russian state bank after 1894: Geoffrey Jones, *Banking and Empire in Iran* (Cambridge, 1986), p.56.
9. There is a large literature on Scottish overseas investments, as distinct from the broader literature on 'British' overseas investments, which usually includes both Scottish and English business abroad. However, the *Dictionary of Business Biography* – now the standard work on businessmen in 'Britain' – omitted business leaders based in Scotland, in deference to a project being carried out in Glasgow. The first volume of the *Dictionary of Scottish Business Biography*, edited by A. Slaven and S. Checkland, was published in 1987.
10. I began to identify crucial features of the home environment in Wilkins, 'The History of European Multinationals'. For some preliminary early testing, see Mira Wilkins, 'Japanese Multinational Enterprise before 1914', *Business History Review*, 60 (1986), pp.199–231.
11. Until recently this has been universally accepted among students of multinational enterprise (MNE). Casson, however, suggests that the high benefits of internalisation (integrating operations) offset the costs of such integration over borders and thus the theorist does not have to find an additional advantage. Casson, *The Firm and the Market*, pp.32, 34. He recognised, however, that the success (persistence) of MNEs does depend on some advantage, but stresses that this advantage may lie in internalisation, that is, in managing resources within the firm. Casson wants to separate choice (entry decisions) and performance. *Ibid.*, pp.35–6. My problem with this analysis is that it does not explain which firms make the choice to go abroad; some do and some do not. The choice, it seems to me, must entail at least a perception of advantage.
12. This view is the accepted one. Professors Raymond Vernon, John Dunning, Lawrence Franko, and others have all made this point.
13. N.F.R. Crafts and Mark Thomas, 'Comparative Advantage in UK Manufacturing Trade 1910–1935', *Economic Journal* 96 (1986), pp.629–45.
14. I found this particularly true of American business abroad. Mira Wilkins, *The Emergence of Multinational Enterprise* (Cambridge, MA, 1970). See also Alfred D. Chandler, *The Visible Hand* (Cambridge, MA, 1977).
15. Professor Chandler has made this point in a number of places.
16. Wilkins, 'The History of European Multinationals'.
17. A forthcoming book edited by Rondo Cameron and V.I. Bovykin, *International Banking, Investment, and Industrial Finance, 1970–1914*, explores some of these relationships.
18. *Ibid.* See also J. Riesser, *The German Great Banks and Their Concentration* (1911; reprint, New York, 1977).
19. A.S.J. Baster, *The Imperial Banks* (1929; reprint, New York, 1977) and *idem*, *The International Banks* (1935; reprint, New York, 1977). Geoffrey Jones is in the process of preparing the basic work on British overseas banks since 1890. See also his two volumes on The British Bank of the Middle East: Jones, *Banking and Empire in Iran and idem*, *Banking and Oil* (Cambridge, 1987). F.H.H. King, *The History of the Hongkong and Shanghai Banking Corporation* (Cambridge, 1987), Vol.1, covers 1864–1902. (Volumes 2–4 are forthcoming, scheduled for 1988). For Canadian banks' extension into the United States, see Mira Wilkins, *The History of Foreign Investment in the United States to 1914*, forthcoming.
20. For example, because of new taxes imposed during the Boer War, Eastman Kodak, Ltd. changed from a legal British to an American headquarters. Carl W.



Ackerman, *George Eastman* (Boston, MA, 1930), pp.173-4. Other examples of tax motivated decisions are provided in Wilkins, *The History of Foreign Investment in the United States*.

21. Carl N. Degler's presidential address to the American Historical Association was entitled 'In Pursuit of an American History'. *American Historical Review*, 92 (1987), pp.1-12. Degler argues that there were significant national attributes, some of which he seems to define in terms of 'culture'. The quotation is from a chapter, entitled 'Qualities of the Germans', in Henri Hauser, *Germany's Commercial Grip on the World* (New York, 1918), p.9. This is a translation from the French. Hauser was a professor at Dijon University; the first edition of this work, in French, appeared in 1915.
22. I agree with Geoffrey Jones in this conclusion. Lawrence Franko, *The European Multinationals* (Stamford, CT, 1976), p.10, put the United States in first place as a home country, based on data collected by James Vaupel and Joan Curhan. These statistics - which are constantly reprinted - have been superseded by more recent research. They were, moreover, based on companies still in existence when the research was undertaken, which created a bias on the low side.
23. This is my own conclusion, based on my own research and my reading of the work of other students of the history of multinational enterprise. John H. Dunning, 'Changes in the Level and Structure of International Production: The Last One Hundred Years', in Mark Casson, *The Growth of International Business* (London, 1983), p.87, presents estimates on the level of foreign direct investment by country of origin in 1914. He ranked the United Kingdom first, and far out front, followed by the United States in clear second place, and then came France; he put Germany in fourth place. I think he has greatly underestimated the activities of German business abroad.
24. Franko, *European Multinationals*, the first book that dealt with the history of European multinationals - and one that holds up very well over time - never makes an attempt to rank continental European home countries.
25. Based on data provided in Wilkins, *The History of Foreign Investment in the United States*. Franko, in *The European Multinationals*, p.10, using the Vaupel and Curhan data, was able to identify only 60 UK 'manufacturing subsidiaries established or acquired' by UK parents before 1914 worldwide! Only nine were in the United States. See breakdown in Dunning, 'Changes in the Level and Structure', p.90. But, Dunning elsewhere in the same article did recognise that the UK was 'far and away' the largest source of foreign direct investment in 1914. See *ibid.*, pp.86-7, and note 23 above.
26. Wilkins, 'The Free-Standing Company, 1870-1914: An Important Type of British Foreign Direct Investment', *Economic History Review*, 2nd series 41 (1988). I first used the term 'free-standing' firm at a conference in Florence in 1983. Wilkins, 'Defining a Firm', in Hertner and Jones (eds.), *Multinationals*, pp.84-7.
27. On these companies, see Jones (ed.), *British Multinationals*, *passim*.
28. I give more details on the clusters in 'The Free-Standing Company'. The theoretical literature on multinational enterprise has dealt with 'modes' of operations - direct investment, licensing, and market - or direct investment, contract, and market. The loosely-coupled groupings of the free-standing companies represent a mode of handling business abroad that the theoretical literature has failed to consider (because this institutional path is just coming to be understood). The British free-standing company could invest abroad directly or serve as a holding company, owning the securities of a locally-incorporated company. It made a difference. On patent medicines, see the work of T.A.B. Corley, for example, 'Interactions between British and American Patent Medicine Industries', *Business and Economic History*, forthcoming.
30. The authority on crucible steel is Geoffrey Tweedale, *Sheffield Steel and America* (Cambridge, 1987).
31. Hugh G.J. Aitken, *The Continuous Wave* (Princeton, NJ, 1985), pp.317, 357-8.
32. Wilkins, *The History of Foreign Investment in the United States*.

33. US Federal Trade Commission, *Report on Cooperation in American Export Trade*, 2 vols. (Washington, 1916), I, pp.252, 254.
34. *Ibid.*, I, p.250.
35. Wilkins, *The History of Foreign Investment in the United States*.
36. Conssett and Dowlais were joint-venture partners with Krupp in Orconera Iron Ore Co., Ltd., that carried on mining in Spain. Ulrich Wengenroth, 'Iron and Steel', in Cameron and Bovykin (eds.), *International Banking*.
37. See Shin'ichi Yonekawa and Hideki Yoshihara (eds.), *Business History of General Trading Companies* (Tokyo, 1987), for fascinating material on British trading companies. See also Stephanie Jones, *Two Centuries of Overseas Trading. The Origins and Growth of the Inchange Group* (London, 1986); Charles Jones, *International Business*; and Chapman, 'British-Based Investment Groups'.
38. See, for example, Andrew Porter, *Victorian Shipping, Business and Imperial Policy: Donald Currie, the Castle Line and Southern Africa* (Woodbridge and New York, 1986).
39. John Taylor & Sons, for instance, were in 1907 managers of 45 companies around the world. Charles Harvey and Peter Taylor, 'Mineral Wealth and Economic Development: Foreign Direct Investment in Spain, 1851-1913', *Economic History Review*, 2nd series 40 (1987), p.189 n.22. See also Wilkins, *History of Foreign Investment in the United States*.
40. Geoffrey Jones's new research will rectify that.
41. Baster, *International Banks*, p.248, indicated that in 1910 24 British international banks had 308 foreign branches, while Baster, *Imperial Banks*, p.269, states that in 1915, 18 imperial banks had 1,169 branches and sub-branches overseas. According to Oliver Pastré and Anthony Rowley (in 'The Multinationalisation of British and American Banks', in Alice Teichova, et al., *Multinational Enterprise in Historical Perspective* (Cambridge, 1986), p.233), who cite no source, in 1914, 36 banking companies in Britain had 2,091 branches 'in the world', and in addition, there were 3,538 colonial banks (surely, colonial bank branches and agencies?). It is hard to reconcile Pastré and Rowley's numbers with those of Baster.
42. The Imperial Bank of Persia, for example. See Jones, *Banking and Empire in Iran*.
43. Some of the trading companies at the centre of cluster sets were clearly multinational enterprises.
44. Questions about control are, for example, posed in Turrell and Van-Helten, 'The Investment Group'.
45. Jones (ed.), *Multinationals*, p.7.
46. Discussions with Geoffrey Jones and Charles Jones.
47. In the case of British investment in America, this appears to have happened immediately. See text of this article. But take the case of the New Gellivara Co. Ltd. with mines in Sweden. In 1882, it was transformed into a Swedish Company (Gellivara Aktiebolag), which was 100 per cent owned by Sir Giles Loder, London. When the latter died, in 1889, his heirs lost all of their concessions. Wengenroth, 'Iron and Steel'. The suggestion was that control could no longer be maintained.
48. The description is theoretical. At present, I have no candidates that fit this model.
49. In this connection, host country policies were often crucial. In 1908, a Court in Alexandria ruled that a company formed to do business in Egypt, must be considered Egyptian, and a Khedivial decree was required before it could be legally constituted. The Court ruling, however, specifically stated that no restriction was placed on the operations in Egypt of a bona-fide branch of a foreign company with headquarters abroad. The Court's decision 'referred only to companies whose operations, headquarters and sole "raison d'être" were in Egypt'. A.E. Crouchley, *The Investment of Foreign Capital in Egyptian Companies and Public Debt* (Cairo, 1936), p.63.
50. The best history of Borax Consolidated is Norman J. Travis and E.J. Cocks, *The Tincal Trail* (London, 1984). See also Wilkins, *History of Foreign Investment in the United States*.



51. Wilkins, *The Emergence*, pp.91-3; Jones (ed.), *British Multinationals*, p.7.
52. Had the ownership been concentrated, perhaps control might have been maintained.
53. I make this last point in 'The Free-Standing Company'.
54. On investment groups, see Chapman, 'British-Based Investment Groups'. On the absence of 'universal' banks, see P.L. Cottrell's forthcoming paper on British banking in Cameroon and Bovykin (eds.), *International Banking*.
55. Harvey and Taylor, 'Mineral Wealth', provide rich information on British companies producing lead, iron ore and pyrites (sulphur and copper) in Spain. The article, however, tells us little about the extent to which these mining operations were part of integrated enterprises - in the United Kingdom, France, or Germany. Were the spectacular profits of the Orconera Co., for example, related to the intra-company pricing arrangements made by its three parent companies? On its parents, see note 36 above.
56. Charles Wilson, 'Multinationals, Management, and World Markets: A Historical View', in Harold F. Williamson (ed.), *Evolution of International Management Structures* (Newark, DE, 1975), p.193.
57. In this connection, see the fascinating Editor's Introduction (by Maryna Fraser) of Lionel Phillips, *Some Reminiscences* (Johannesburg, 1986), pp.11-30, on 'British' business in South Africa. See also D.C.M. Platt, *Britain's Investment Overseas on the Eve of the First World War* (New York, 1986), pp.31-6.
58. In this connection, see Everett E. Hagen, *On the Theory of Social Change* (Homewood, IL, 1962), pp.294-309.
59. Geoffrey Jones has found many cases where British management had severe difficulties in operating abroad.
60. Rondo Cameron, *France and the Economic Development of Europe* (Princeton, NJ, 1961), p.396; on the important Belgian role, see Wengenroth, 'Iron and Steel'.
61. Wilkins, *The Emergence*, pp.52-9.
62. Peter Hertner has written extensively on German business abroad. For a start, see his excellent 'German Multinational Enterprise before 1914: Some Case Studies', in Hertner and Jones (eds.), *Multinationals*, pp.113-34. See also W. Feldenkirchen, 'The Export Organisation of the German Economy', in Yonekawa and Yoshihara (ed.), *Business History*. Chandler's new book will consider the international extension of German business.
63. The German trading house, Schuchardt and Schutte, for example, was probably 'the most prestigious distributor of machine tools in Europe'; it had 'outlets' in Germany, Austria, Belgium, and Russia. Charles W. Cheape, *Family Firm to Modern Multinational: Norton Company, a New England Enterprise* (Cambridge, 1985), p.50. See also, Feldenkirchen, 'The Export Organisation', on export houses. The firms in Guatemala and Turkey were more active in providing imports into Germany than in selling exports from Germany. Schuchardt and Schutte handled some American exports as well as German ones.
64. See Wilkins, *History of Foreign Investment in the United States*.
65. Richard Tilly, 'International Aspects of the Development of German Banking, 1870-1914', in Cameron and Bovykin (eds.), *International Banking*.
66. My *History of Foreign Investments in the United States* has a sizeable amount on German business investments in the United States. Geoffrey Jones, 'Foreign Multinationals in Britain before 1945', *Economic History Review*, forthcoming, has much on German business in the United Kingdom. It has long been known that there were large German investments in Latin America - from railroads in Colombia to nitrate mines in Chile, but the nature of the management of such investments is still ambiguous. The reviews of Walther Kirchner, *Die Deutsch Industrie und die Industrialisierung Russlands 1815-1914* (St. Katharinen, F.R.G., 1986), indicate that it covers the activities of German multinationals in Russia.
67. Every basic history of the chemical industry, covering 1870-1914, deals with the German direct investments abroad (as well as at home). On the electrical industry,

- see, for example, Peter Hertner, 'Financial Strategies and Adaptation to Foreign Markets: The German Electro-Technical Industry and Its Multinational Activities', Teichova, et al., *Multinational Enterprise*, pp.145-59, and Albert Broder, 'The Multinationalisation of the French Electrical Industry 1880-1914: Dependence and its Causes', in Hertner and Jones (eds.), *Multinationals*, pp.178-80, 184-5. According to Feldenkirchen, 'The Export Organisation', p.325 n.91, Siemens had in 1913, 17 plants in nine European countries.
68. On the foreign marketing organisation of the principal German iron and steel companies, see Feldenkirchen, 'The Export Organisation', pp.310-11. On Bochumer Verein, Mannesmann, and Rheinische Stahlwerke's major foreign investments, see *ibid.*, pp.318-19, and Wengenroth, 'Iron and Steel', on the last two.
69. Bayer Co., Inc. v. United Drug Co., 272 Fed. 505 (SDNY, 1921).
70. Wilkins, *History of Foreign Investment in the United States*.
71. Here my conclusions depart from Franko, *European Multinationals*, p.22, who was struck by the fact that 'continental European' enterprises rarely had advantages in marketing and advertising.
72. Data on the Faber firm in the 1870s are based on an undated (probably 1872-73) newspaper article, provided to me by Eberhard Faber, Wilkes-Barre, Pennsylvania. See also A.W. Faber's US colour advertisement (in English), reprinted in L. Fritz Gruber, 'Das Bleistift Schloss', *Frankfurter Allgemeine Zeitung*, 13 Feb. 1987. My thanks go to Richard Tilly for directing my attention to this. The parent company became Faber-Castell in 1900. Peter Hertner describes Kathreiner's Malzkaffee-Fabriken, as having direct investments in manufacturing plants in Austria-Hungary, Sweden, Russia, and Spain by 1914. It marketed and advertised a consumer product, malt coffee. Hertner, 'German Multinational Enterprise', 118-19.
73. Compare Wilkins, *History of Foreign Investment in the United States*, with Feldenkirchen, 'The Export Organisation', p.317.
74. Franko, *European Multinationals*, p.50, and Wengenroth, 'Iron and Steel'.
75. On its interests in American Metal Company, see Wilkins, *The History of Foreign Investment in the United States*. Franko, *European Multinationals*, p.50, on other of its foreign direct investments.
76. For the involvements in Romania, see M. Pearson, *Oil and the Rumanian State* (Oxford, 1971) and Fritz Seidenzahl, *100 Jahre Deutsche Bank, 1870-1970* (Frankfurt, 1970), pp.205-24. For German oil activities in the middle east, see *ibid.*, pp.224-7, and Marian Kent, *Oil & Empire* (London, 1976).
77. My *The Emergence of Multinational Enterprise*, published in 1970, provided a history of American business abroad in the years before 1914. Subsequently, there have been many studies of the history of US businesses abroad. Among the recent contributions are Fred V. Carstensen, *American Enterprise in Foreign Markets. Studies of Singer and International Harvester in Imperial Russia* (Chapel Hill, NC, 1984); Lawrence A. Clayton, *Grace. W.R. Grace & Co. The Formative Years 1850-1930* (Ottawa, IL, 1985); and Cheape, *Family Firm to Modern Multinational*.
78. On I.B.C., see Wilkins, *The Emergence*, p.107.
79. See Alfred D. Chandler, *The Visible Hand*; his 'Technological and Organisational Underpinnings of Modern Industrial Multinational Enterprise: The Dynamics of Competitive Advantage', in Teichova, et al., *Multinational Enterprise*, pp.30-54; and his forthcoming book.
80. *Ibid.* Sometimes economies of scale and scope are viewed as part of an advantage - based on factor costs. More recently, new developments in trade theory have looked at economies of scale (and scope) as separate from traditionally-defined comparative advantages; trade (and, in turn, investments) arise directly from such economies. See Paul R. Krugman, 'Is Free Trade Passé?', *Economic Perspectives*, Vol.1 (1987), p.133. The distinction is between what is endogenous to the firm and exogenous. Yet, the achievements of economies of scope and scale (albeit



endogenous) were based, I firmly believe, on conditions in the home country.

81. Wilkins, *History of Foreign Investment in the United States*.
82. The Potash Cartel, for example, had a sales company in the United States. See *ibid.*
83. P. Chalmrin, 'The Rise of International Commodity Trading Companies in Europe in the Nineteenth Century', in Yonekawa and Yoshihara (ed.), *Business History*, p.290.
84. Some of the best work on this subject remains that in Rondo Cameron's 1960 book, *France and the Economic Development*.
85. *Ibid.*, pp.397-400. On St. Gobain's German factories, see Jean-Pierre Daviet, 'Un Processus de Multinationalisation de Longue Durée: L'Exemple de Saint-Gobain (1853-1939)', unpublished paper (1984). This paper has been published (in Italian) in Peter Hertner, *Per La Storia dell'impresa multinazionale in Europa* (Milan, 1987). Daviet completed a 1793-page doctoral dissertation at the Sorbonne in 1983.
86. Daviet, 'Un Processus'.
87. Theo Barker, 'Pilkington', in Jones (ed.), *Multinationals*, p.185.
88. Wilkins, *History of Foreign Investment in the United States*, on Michelin. On Dunlop, Geoffrey Jones, 'The Growth and Performance of British Multinational Firms before 1939: The Case of Dunlop', *Economic History Review*, 2nd series 37 (Feb. 1984), p.36. In addition, Dunlop had licensing agreements with companies in Canada, Australia, and Russia. *Ibid.*, p.39.
89. Patrick Fridenson, 'The Growth of Multinational Activities in the French Motor Industry, 1890-1979', in Hertner and Jones (eds.), *Multinationals*, pp.157-9.
90. Claude Ph. Beaud, 'Investments and Profits of the Multinational Schneider Group: 1894-1943', in Teichova, et al., *Multinational Enterprise*, pp.87-102. See also *idem.*, 'La Schneider in Russia (1896-1914)', in Hertner, *Per La Storia*, pp.101-48.
91. Wilkins, *History of Foreign Investment in the United States*.
92. French investors often appear to have used British-registered companies for investments abroad - not only in Spain. I found this to be true of some French investors in the United States, principally in mining. Beaud found that Schneider (and other French investors) used the Bolivian Rubber and General Enterprise, Ltd., registered in London, for its investments in Bolivia. Beaud, 'Investments and Profits', p.90.
93. Robert L. Tignor, *State, Private Enterprise and Economic Change in Egypt, 1918-1952* (Princeton, NJ, 1984), pp.19-20, found that in the pre-First World War years 'French businessmen experienced great difficulty in maintaining managerial control over French firms in Egypt. French investment was widely dispersed, and small French shareholders took little interest in the management of companies so long as dividend payments continued to arrive. Hence, small groups of organised shareholders on the ground could gain control of companies, even though holding only a fraction of the shares.' This sounds like some of the problems faced by British free-standing companies. I suppose one could call the Suez company a free-standing firm. See Hubert Bonin, *Suez* (Paris, 1987).
94. On French trading companies (and French banks), see Chalmrin, 'The Rise', especially pp.289-91. Chalmrin argues that 'the first disease of French trade [was] the determination of the [French] industry to do its marketing itself' - and it was always a job badly done. The 'second disease' was that the French concentrated on quality and luxury products - perfumes, cognac, champagne, and fashion, which sold themselves. Thus there was no need to bother to have representatives abroad. He believes, however, that French trading houses were more efficient on the import than on the export side. On the large French West African chartered company, see Hubert Bonin, *La Compagnie Française d'Afrique Occidentale* (Paris, 1987).
95. Geoffrey Jones is planning a conference on 'banks as multinationals'. It will be extremely useful to compare the role of French banks with those of other

nationalities. For one recent contribution on French banking abroad, which despite its title does cover the pre-1914 years, see Yasuo Gonjo, 'La Banque de l'Indochine devant l'interventionisme (1917-1931)', *Le Mouvement Social*, 142 (Jan.-March, 1988), pp.45-74.

96. John McKay, 'The House of Rothschild (Paris)', in Teichova, et al., *Multinational Enterprise*, pp.74-86.
97. Cameron found this to be true. See *France and the Economic Development*.
98. Maurice Lévy-Leboyer's work also suggests this. The footnotes in Lundström, 'Swedish Multinational Growth', bear witness to the large literature on Swedish multinationals. Since her article was written, the synthesis volume on Swedish Match and its predecessors has been published, Karl-Gustaf Hildebrand, *Expansion Crisis Reconstruction, 1917-1939* (Stockholm, 1985). Lundström's contributions to Cameron and Bovykin's forthcoming book add further material on Swedish business abroad.
99. Data from Lundström on Empire Cream Separator Co. See also Wilkins, *History of Foreign Investment in the United States* on this company.
100. There is a history of Solway & Cie. J. Bolle, *Solvay, L'Invention, L'homme, L'entreprise Industrielle* (Brussels, 1963).
101. This is all from Herman Van der Wee and Martine Goosen's splendid contribution, 'International Factors in the Formation of Banking Systems - Belgium', forthcoming in the Cameron and Bovykin volume.
102. *Ibid.* and John McKay, *Tramways and Trolleys* (Princeton, NJ, 1976), pp.149, 244 (on the Belgian role).
103. Van der Wee and Goosen, 'International Factors'.
104. Wengenroth, 'Iron and Steel'; see also John P. McKay, *Pioneers for Profit* (Chicago, 1970).
105. Lutz Alt, 'The Photochemical Industry' (Ph.D. dissertation MIT, 1986), pp.71-9.
106. Robert Liefmann, *Cartels, Concerns, and Trusts* (London, 1932), p.269.
107. Wilkins, *History of Foreign Investment in the United States*, and Van der Wee and Goosen, 'International Factors'.
108. For a list of Swiss companies engaged in international business, see Ernst Himmel, *Industrielle Kapitalanlagen der Schweiz im Auslande* (Langensalza, 1922), pp.116-37.
109. *Ibid.*, pp.132-3.
110. Every Swiss company history - and they are numerous - attests to this.
111. Himmel, *Industrielle Kapitalanlagen*, Recapitulation, no page number. But see also Urs Rauber, *Schweizer Industrie in Russland* (Zurich, 1985). Rauber believes Himmel underestimated Swiss industrial investments in Russia. (Rauber's book sent me to Himmel, albeit I have had difficulty matching Rauber's numbers with Himmel's. The data in my text are from Himmel).
112. Silk Association of America, *Annual Report 1905*, pp.60-61.
113. *Fulton, New York 1901*, p.65.
114. Federal Trade Commission, *Cooperation*, I, p.145.
115. Himmel, *Industrielle Kapitalanlagen*, Recapitulation.
116. Based on my own research.
117. See F.C. Gerretson, *History of the Royal Dutch Company*, 4 vols. (Leiden: E.J. Brill, 1953-57). K.D. Bosch, *Nederlandse Beleggingen in De Verenigde Staten* (Amsterdam, 1948), is invaluable on Dutch investment in the United States.
118. See Wilkins, *History of Foreign Investment in the United States*, and Augustus J. Veenendaal, Jr., 'The Kansas City Southern Railway and the Dutch Connection', *Business History Review*, Vol.61 (1987), pp.291-316. Often, the Dutch delegated their authority to Americans; such delegation, however, would not by definition bar such stakes from the category of foreign direct investment.
119. Wilkins, *History of Foreign Investment in the United States*; Christopher Armstrong and H.V. Nelles, 'A Curious Capital Flow: Canadian Investment in Mexico, 1902-1910', *Business History Review*, Vol.58 (1984), pp.178-203.



120. Wilkins, *History of Foreign Investment in the United States*. Geoffrey Jones has directed my attention to the Hungarian Bank for Commerce and Industry of Pest's controlling interest in the Romanian oil company, Steaua Romana, from 1892–1902. See Pearton, *Oil and the Rumanian State*, pp.23–31. Three large Hungarian banks were owners of the Transatlantic Trust Co., New York, founded in 1912. Wilkins, *History of Foreign Investment in the United States*.

121. Fridenson, 'The Growth', p.157.

122. *Bes's Insurance Report – Fire and Marine*, 1914.

123. There were, in addition, some non-European, non-North American headquartered multinational enterprises. See, for example, Wilkins, 'Japanese Multinational Enterprise before 1914'.

124. It is my own conclusion that the United States ranked first. For my forthcoming *History of Foreign Investment in the United States*, I prepared a ranking of debtor nations in 1914; this included, however, both foreign portfolio and direct investments and does not offer a legitimate ranking for direct investment alone. Dunning, 'Changes in the Level and Structure', p.88, made estimates and provided a 1914 ranking that is not broken down by country in Latin America (32 per cent of the world's foreign direct investment), but which, excluding Latin America, suggests the following leading recipients: the United States (10.3 per cent), China (7.8 per cent), Russia (7.1 per cent), Canada (5.7 per cent). These were, as Dunning recognizes, 'estimates'. In Latin America, Argentina, Brazil, Mexico, Chile, Peru, and Cuba would figure as the most important recipients of foreign direct investment in 1914. All of Europe – excluding Russia, the UK (a mere 1.4 per cent), and 'Southern Europe' (2.8 per cent) – had by Dunning's reckoning, 9.2 per cent of the total.

125. This was true of aspirins in the United States (made by Bayer) and sewing machines in Germany (made by Singer) in this period.

126. For some thoughts on this matter, see Mira Wilkins, 'Efficiency and Management: A Comment on Gregory Clark's "Why Isn't the Whole World Developed?"' *Journal of Economic History*, Vol.47 (Dec. 1987), pp.981–3.

127. Since this article has space constraints, I have not discussed the pre-1914 licensing activities of multinationals as a separate 'mode'. However, the comparative evidence on the amount of licensing done by companies headquartered in different home countries seems too lean – at present – for anything but the most superficial conclusions. If joint-ventures are to be considered a 'mode', there were a large number of such by multinationals of all nationalities – although the exact nature of the shared relationships is still ill-defined and it would be impossible to choose say 1914 and to rank the prevalence of joint ventures by home country of the multinationals.

128. America had lots of small companies that had nothing but local business.

129. Professor Alfred D. Chandler has been important in pointing out to me how very large employers some of the pre-1914 German enterprises actually were, when compared with their American counterparts.

130. I found in my research on American business abroad a number of such 'partial' relationships, but they seem far more conspicuous in the European context – especially in connection with primary product production – agriculture, or mineral extraction.

131. Porter, *Victorian Shipping*, noted that the dividends paid by the Castle Line were not impressive; yet, Donald Currie, who had a management contract to run the line, emerged as a very wealthy man. He obviously obtained his returns from the management contract, assured by his equity holdings. Whenever management contracts exist, the scholar must check the account books carefully. Sometimes, a British agency house abroad could have a negligible (or even no) investment and still have a management contract that provided it good returns – whether there were or were not profits.

132. See Mira Wilkins, *The Maturing of Multinational Enterprise* (Cambridge, MA, 1974), pp.414, 565 ns.8–9; Chandler, *The Visible Hand*; O.E. Williamson, 'The

Modern Corporation: Origins, Evolution, Attributes', *Journal of Economic Literature*, Vol.19 (1981), pp.1537–68; Wilkins, 'Defining a Firm', and most recently, Casson, *The Firm and the Market*, p.1. There has been some dispute as to who first applied the ideas of R.H. Coase to the theory of multinational enterprise. The first two published applications were in 1970 by Stephen Hymer, 'The Efficiency (Contradictions) of Multinational Corporations', *American Economic Review*, Vol.60 (1970), pp.441–8, and Robert Z. Aliber, 'A Theory of Direct Foreign Investment', in Charles Kindleberger (ed.), *The International Corporation* (Cambridge, MA, 1970), p.20. In 1974 I picked up on the idea (in a footnote which no one ever read). Wilkins, *The Maturing*, p.565 n.9.

133. I consider that my *Economic History Review* article poses more questions than it answers. For some of the applications, see Wilkins, 'Efficiency and Management'.

134. Kiyoshi Kojima has described US multinationals as trade-destroying, while Japanese ones were trade-creating. Kojima, *Japanese Direct Foreign Investment* (Tokyo, 1978) and idem, *Japan and a New World Economic Order* (Tokyo, 1977). I do not think that in 1870–1914, American multinationals were trade-destroying; in fact, I believe that all the multinationals of 1870–1914 were trade creating – albeit to different extents. It is very important to study exports and imports separately in this context.

135. Note that this was the title of Stephen Hymer's seminal Ph.D. dissertation (1960).

136. For example, when parent entrepreneurs have 'homes' in three countries and operate in a host nation, say South Africa, how does one decipher a 'home' or headquarters? I believe one must close one's eyes to 'nationality' and look at administrative and legal institutional relationships. Was Aluisse, for instance, a German or a Swiss aluminium company – or a truly co-operative venture?