
British Multinational Investment before 1939 *

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British direct foreign investment before World War II has been a neglected area of historical enquiry. In part, this reflects the relative unimportance attached to direct investment in comparison to portfolio investment by economic historians.¹ Recently, the downvaluing of pre-1870 British portfolio investment by D.C.M. Platt² and Peter Svedberg's estimate that perhaps 53 per cent of private investment in Third World countries was direct by 1914³ has focused attention on the origins, motivation and direction of British multinational investment before 1939. In the same vein, Irving Stone, in a study of the pre-1914 shifts between portfolio investment and British ownership

* I would like to thank L. Hannah, Geoffrey Jones, Tom Parry, Roderick Floud and Anne Carlos for helpful comments. All errors are mine alone.

¹ J. STOPFORD, "The Origins of British Based Multinational Manufacturing Enterprises", *Business History Review*, XLVIII (1974), p. 305.

² D.C.M. PLATT, "British Portfolio Investment Overseas Before 1870: Some Doubts", *Economic History Review*, Second series, XXXIII (1980), pp. 1-16.

³ PETER SVEDBERG, "The Portfolio: Direct Composition of Private Foreign Investment in 1914 Revisited", *Economic Journal*, 88 (1978), pp. 763-777. See also I. STONE, "British Direct and Portfolio Investment in Latin America Before 1941", *Journal of Economic History*, XXXVII (1977).

of long-term securities which allowed a controlling interest over management in Latin America, found that direct investment was an increasing share of British investment reaching a peak of 46 per cent of total investment in 1913.⁴ British direct investment in Latin America, according to Stone, dominated in railways, public utilities and raw material sectors, but not the mining or industrial categories.⁵ However, it is hard to avoid the impression that much of the Latin American direct investment catalogued by Stone involved in the U.K. little more than a brass nameplate someplace in the City. In that sense, Stone's estimates of direct investment do not correspond to the current type of direct investment typified by today's British and American multinationals. In contrast to the aggregate approach of Stone or Svedberg, D. Paterson examined the relatively low level of U.K. compared to U.S. direct investment in pre-1914 Canadian manufacturing.⁶ Paterson explained this difference — or "failure" — in terms of the institutional structure of British investment in marketing agencies and warehouse facilities in contrast to U.S. direct investment in branch production.⁷ Secondly, U.K. direct investment in Canada showed a rigidity against decentralised decision-making, utilisation of local capital, reinvestment of profits, and investment in non-natural resource exploitation.⁸ If British manufacturing 'failed' in Canada, John Stopford showed that there were successful British pioneers of direct manufacturing investment in the XIXth and early XXth century.⁹ Although Stopford shares with Paterson a feeling that British private investment was handicapped by the lack of entrepreneurial vigour in pursuing foreign investment,

⁴ *Ibid.*, p. 691.

⁵ *Ibid.*, pp. 702-10.

⁶ D. PATERSON, *British Direct Investment in Canada 1890-1914*, Toronto, (1976), pp. 107-8.

⁷ *Ibid.*, pp. 110-11.

⁸ *Ibid.*, pp. 108-10.

⁹ STOPFORD, "Origins of British-Based Multinational".

he identified successful 1970 multinationals which made significant pre-1914 direct investments abroad.¹⁰

Stopford identified the Empire as the path of least resistance for direct investment by British firms before 1914. Perhaps Stopford's most important finding was the shift to Europe in the inter-war years by the pre-1914 pioneers in contrast to the continued emphasis on the Commonwealth and Empire markets by the inter-war followers.¹¹ The branching out of the pioneer firms was explained by Stopford in terms of "experience" in the international economy, the ability to innovate, and being "much better equipped to compete head-on" with progressive foreign firms.¹² Unfortunately, Stopford offers no tests of these hypotheses. Moreover, Stopford's data base is limited to those pre-1914 multinationals with a significant investment abroad which were among the 100 largest manufacturing firms in 1970. The result is a sample of 14 firms which provides a less than representative study of the activities of pre-World War I British multinationals. Further, Stopford's data base is marred by serious errors and omissions. For example, in the pre-1914 period Dunlop had branch production in Canada, France, Germany and Japan and sold in Argentina and South Africa rather than manufacturing in South Africa, Canada, Germany, Argentina and Japan as reported by Stopford.¹³ From such a small sample, even if free of errors, it would be hazardous to draw comparisons of performance between British pioneering multinationals and either the rest of the British manufacturing sector or U.S. direct investment. Stopford's evidence does not support his judgement that British manufacturing firms were viewing the world at a distance while

¹⁰ PATERSON, *British Direct Investment*, pp. 110-111; Stopford, "Origins of British-Based Multinational", pp. 311-18.

¹¹ *Ibid.*, p. 329.

¹² *Ibid.*

¹³ *Ibid.*, Table 3, p. 316. I want to thank Geoffrey Jones for this information on Dunlop.

ignoring developments in markets and technology abroad.¹⁴ Nor is the implication in Stopford's work that U.S. direct investment, based on technology-led giants, outpaced British multinational investment before 1939 justified.

Perhaps the most disappointing feature of recent historical work on multinationals is the lack of an explicit theoretical model which can be empirically tested. The pathbreaking work on U.S. multinationals by Mira Wilkins has influenced subsequent work on U.K. and European direct investment.¹⁵ The role of high per capita income markets, marketing considerations such as the drive to widen markets, control distribution, reduce transport costs and meet competition, oligopolistic advantages of investing firms and dynamic entrepreneurial leadership identified by Wilkins as the motivation for American direct investment has been echoed by Stopford in his study of British and by Lawrence Franko in his work on European multinationals.¹⁶ The methodology underlying the approach is argument by example. This methodology leads to a proliferation of examples and counter-examples and at worst unrepresentative case studies and general statements became explanations. For example, in a monograph on European multinationals, Lawrence Franko emphasised the search for raw materials and home market factors, such as relative factor prices and income levels, as preconditions for European direct investment.¹⁷ Home market factors, according to Franko, shaped new European product innovations which were initially exported abroad before the firm made a commitment to direct investment. Therefore, European-based multinationals were not represented in labour-saving or middle-income goods, but concentrated on synthetics, working-class and luxury goods.¹⁸ If

¹⁴ *Ibid.*, p. 326.

¹⁵ M. WILKINS, *The Emergence of Multinational Enterprise*, Harvard, (1970) and *The Maturing of Multinational Enterprise*, Harvard, (1974).

¹⁶ L. FRANKO, *The European Multinationals*, London, (1976).

¹⁷ *Ibid.*, ch. 2-3.

¹⁸ *Ibid.*, p. 77.

European international firms concentrated on chemicals, electrical, and pharmaceutical goods reflecting European factor endowments, then the labour saving biases in American technology were reflected in the high percentage of firms in the non-electrical and mechanical engineering category. Although Franko provided no theoretical model to support this home market-factor cost approach economic historians will recognise Franko's analysis as an application of the Habakkuk thesis of American-British technology differences to European new product development.¹⁹ The Habakkuk thesis argues that relative scarcity of any input factor in one economy shapes a different type of invention and innovation relative to another economy with more plentiful supplies of the same factor. Although the model is intuitively appealing, economic historians have found the historical connection between the investment activities in Britain and American and the factor scarcity relationships impossible to forge. Equally important, all efforts to resolve empirically the question of bias-induced innovation has foundered on the inability to separate the direction from the rate of technical change.²⁰ Franko's hypothesis of scarcity-induced innovation, while appealing in theory, does not offer an historically testable model of European direct investment.

The one attempt to utilise a general model illustrates the dangers of a methodology based on argument by example. Both Stopford and Franko rely on Raymond Vernon's product life cycle model to support the tendency for European firms to export products to overseas markets before making a commitment to direct investment.²¹ The product life-cycle model assumed

¹⁹ H.J. HABAKKUK, *American and British Technology in the Nineteenth Century*, Cambridge, (1967).

²⁰ P. DAVID, *Technical Change, Innovation and Economic Growth*, Cambridge, (1975), pp. 33-50.

²¹ R. VERNON, "International Investment and International Trade in the Product Cycle", *Quarterly Journal of Economics*, 80 (1966), pp. 190-207; FRANKO, *European Mul-*

new product innovation occurred in a high per capita income country with high unit labour costs, costs of transacting and external economies.²² With expanding demand causing a degree of standardisation, the new product evolved into a mature product which can be manufactured by those export markets situated in developed countries. The last stage was the standard product stage when the product could be manufactured by less developed economies. However, Franko noted that no rigorous test linked new product innovation with exports and the mature product stage with subsequent foreign branch production.²³ For British multinationals, Stopford found that Courtaulds, Dunlop, Nobel, Vickers and the Gramophone Company all developed new products based on unique home market technology before exporting to high income markets.²⁴ In an implicit test of the product-cycle model Stopford implied that rising tariff barriers in high income markets stimulated direct investment in branch production by U.K. firms to maintain their local market dominance.²⁵ Courtaulds's investment in America, for example, fits the Vernon pattern. Courtaulds' American branch production was stimulated by the increase in the U.S. duty on artificial silk and the threat of competition from European firms entering the market.²⁶ In ring spindle production, Howard and Bullough opened an American branch in 1894 when their export trade was threatened by tariffs and local production.²⁷ Price's Patent Candle Company found it 'uneconomic' to export from the U.K. due to compe-

tinational, pp. 24-33; STOPFORD, "The Origins of British-Based Multinational", pp. 318-9.

²² VERNON, "Product Cycle", pp. 192-194.

²³ FRANKO, *European Multinational*, p. 24.

²⁴ STOPFORD, "Origins of British-Based Multinational", p. 318.

²⁵ *Ibid.*, pp. 318-22.

²⁶ D. COLEMAN, *Courtaulds: An Economic and Social History*, Oxford, (1969), p. 107.

²⁷ S.B. SAUL's, "The Engineering Industry" in D. ALDCROFT (ed.), *The Development of British Industry and Foreign Competition*, London, (1968), pp. 193-4.

tition by local manufacturers and tariffs.²⁸ In glass, Pilkington's 1934 Australian safety glass investment safeguarded its plate glass supplies to the motor industry from local producers.²⁹ Although these examples of British direct investments in the mature product stage in response to tariffs and local competition in high income markets support the Vernon life-cycle model, counter-examples abound. Even companies which invested abroad to overcome tariffs and meet competition, such as Evans Medical, Brampton Brothers, Alfred Bird and Son, and Blandell and Spence were unlikely to be in the mature product stage. Direct tests of Vernon's model in an historical context are likely to founder on both the inability to identify unambiguously the product stage of differentiated products and from the paucity of business history data. Perhaps business histories, which explicitly study the international commitments of firms, will allow historians to analyse product innovation stages. One such study, D.K. Fieldhouse's *Unilever Overseas* does not provide support for the Vernon model. For Australia, Fieldhouse found that under Lever's leadership before 1914 investment was determined by the availability of raw materials, a high income local market, tariffs or the threat of tariffs and a desire to reduce transport costs.³⁰

On the whole, recent work on direct investment generalises from selected case studies to the whole sector or industry under study at the expense of specifying and testing a model of direct investment. Business historians have long recognised that a proliferation of examples will not resolve issues surrounding the behaviour and performance of the aggregate experience of the industry or economy. Discussing approaches to understanding business structure growth in Britain, Leslie Hannah has counselled economic historians to examine wider and more representative

²⁸ Still *The Candle Burns*, (private), p. 194.

²⁹ T.C. BARKER, *The Glassmakers Pilkington: The Rise of an International Company 1825-1976*, London, (1977), p. 381.

³⁰ FIELDHOUSE, *Unilever Overseas*, London, (1979), pp. 64-5.

samples of firms.³¹ In this study, 119 manufacturing firms (from classifications 1-16 in Table 1) which made a direct investment in the period 1870-1939 was used. The data were collected from 'professional' business histories, company histories, business records and reports on British-based firms. In some cases the information on the international operations involved little more than the year and country of the direct investment while in other cases complete information on the reasons for the direct investment, the type of products and the problems of starting foreign operations were given. Direct investment in manufacturing was defined as the ownership or control of either sales facilities or production plant in the U.K. and at least one foreign country. Our sample is representative of both large and small firms since 19 per cent of the sample invested in 5 or more foreign countries, 39 per cent in 2-4 countries and 42 per cent in one foreign country only. This rough measure of size, reflects the lack of data on the size of firms or their overseas investment in more conventional terms of assets, sales, or employment.

This paper formulates a theoretical model of direct investment in manufacturing which can be tested using our sample of 119 firms. From Table 1, the industry categories dominating British foreign direct investment were electrical and non-electrical engineering, chemicals, food, textiles and metal goods. Compared with a sample of 45 pre-1914 U.S. multinational companies, also in Table 1, U.S. and U.K. direct investment was broadly similar. The major divergencies in the manufacturing categories were the relatively more important role of U.S. non-electrical engineering which accounted for 27% of U.S. compared to 13% of U.K. direct investment, and the enhanced role of U.K. textiles (19%) and metal goods (9%) investment compared to U.S. investment of less than 1% in these categories.

³¹ L. HANNAH, "Introduction: Business Development and Economic Structure in Britain Since 1880" in L. HANNAH (ed), *Management Strategy and Business Development: An Historical and Comparative Study*, London, (1976), pp. 13-14.

TABLE 1

INDUSTRY CLASSIFICATIONS OF U.K. AND U.S. DIRECT INVESTMENT
AND 50 LARGEST DOMESTIC FIRMS IN 1919 AND 1930

	U.K. (%)	U.S. (%)	1919 (%)	50 Largest Firms 1930 (%)
1. Food	12	11	8	14
2. Drink	1	11	10	20
3. Chemical	13	16	14	8
4. Electrical Engineering	10	11	2	6
5. Non-Electrical Engineering	13	27	10	6
6. Metal Manufacture	5	4	18	8
7. Shipbuilding	0	0	5	2
8. Vehicles	3	2	2	4
9. Metal Goods	9		< 1	4
10. Textiles	10		16	< 1
11. Leather/Fur	< 1		< 1	10
12. Clothing	< 1		< 1	< 1
13. Brick/Clay	1		1	< 1
14. Timber	1		< 1	2
15. Paper/Printing	4	2	< 1	
16. Other Manufacturing	7	11	12	16
17. Trade	3			
18. Bank	0			
19. Plantation	5			
20. Mining	< 1			
21. Petrol	< 1	13		
22. Shipping	< 1			
23. Service	< 1	3		

Source: Sample of 119 firms.

M. WILKINS, *The Emergence of Multinational Enterprise*, Harvard (1970), pp. 298-17.

A.D. CHANDLER, 'The Development of Modern Management Structure in U.S. and U.K.', in L. HANNAH, (ed.), *Management Strategy*, pp. 33-34.

P. PAYNE, 'The Emergence of the Large-Scale Company in Great Britain, 1870-1914', *EHR*, 2nd series XX (1967), pp. 539-40.

L. HANNAH, *The Rise of the Corporate Economy*, pp. 118-19.

A similar divergence was discussed in a comparison of U.S.-U.K. corporate structure by A.D. Chandler who noted that 'The basic differences between the two countries was that the U.K. had more armament and textile enterprises than the U.S. and far

fewer machinery and petroleum firms.³² The relative weakness of the U.K. engineering industry has been explained by the nature of the domestic engineering market which approach the American in size, allowing the adoption of standardisation and interchangeable parts in continuous production, only after 1900.³³ In this case, domestic market structure differences explain the heavier representation of U.S. compared to U.K. multinationals in engineering before 1939. More generally, Table 1 compares U.K. direct investment with the industry classifications for the 50 largest firms (by market valuation) in manufacturing in 1919 and 1930. The U.K. corporate economy's emphasis on food, drink, chemicals, textiles, engineering and other manufacturing was reflected in the concentration of much of U.K. overseas direct investment in these same categories. The increasing importance of the drink sector in the largest 50 firms resulted from domestic merger activity centred on the brewery sector which was not reflected in British overseas direct investment. As a general rule, those industries which dominated the corporate economy also dominated British direct investment. The motives and impulses creating U.K. multinational firms were embedded in the type and structure of firms which merged to form the domestic corporate economy in the 1880-1939 period.

In the American literature, the development of large corporations is considered a prerequisite to the expansion of firms abroad. Recently, the framework developed by A.D. Chandler to explain the growth of large U.S. corporations has been extended to the growth of pre-1939 giant U.K. firms. Simply stated, the Chandler model emphasised the strategic decisions of entrepreneurs to internalise market functions mainly through vertical

³² A.D. CHANDLER, "The Development of Modern Management Structure in the U.S. and U.K." in L. HANNAH (ed), *Management Strategy*, p. 35.

³³ L. HANNAH, "Business Development" in L. HANNAH (ed), *Management Strategy*, pp. 8-12 and S. NICHOLAS, "The American Export Invasion of Britain: The Case of the Engineering Industry 1870-1914", *Technology and Culture*, (Oct. 1980).

and horizontal integration in a national market. Strategic growth, which places strains on the internal organisation of the firm, triggers structural changes in the form of functional centralised departments, diversification, multidivisional structures, and group decision making through the 'technostructure'.³⁴ Extending the Chandler framework to the international economy, Stephen Hymer explained uneven world development in terms of the extension of the national supercorporation abroad causing the global economy to resemble the national corporate economy of Britain and America.³⁵ Hymer's major contribution was to spell out an explicit 'market failure' approach to direct investment. The desire to appropriate quasi-monopoly returns on the unique skills and abilities of firms in imperfect markets was the major motivation identified by Hymer for U.S. post-1948 direct investment.³⁶ A similar statement of the "market failure" framework linking domestic market factors to direct overseas investment was Richard Caves' thesis that "The international corporation's plans to make horizontal and vertical investments abroad are directly comparable to business decisions opting for familiar forms of domestic expansion".³⁷ Experience in the home market in product differentiation, advertising and branded product promotion involved unique knowledge about serving the market which could only be transferred to foreign markets through the device of the international firm.³⁸

The "market failure" model emphasises the costs of transacting in the market, such as tariffs, uncertainty, transport costs

³⁴ J. GALBRAITH, *The New Industrial State*, Penguin, (1972), ch. 6, 8, 13. A. D. CHANDLER, *The Visible Hand*; L. HANNAH (ed), *Management Strategy*.

³⁵ S. HYMER, "The Multinational Corporation and the Law of Uneven Development" in H. RADICE (ed), *International Firms and Modern Imperialism*, Penguin, (1975), pp. 37-62.

³⁶ S. HYMER, *The International Operations of National Firms: A Study of Direct Foreign Investment*, MIT, (1975), pp. 25-6.

³⁷ R. CAVES, "International Corporations: The Industrial Economics of Foreign Investment", *Economica*, XXVIII, (1971), p. 3.

³⁸ *Ibid.*, pp. 4-7.

and costs of information which are internalised within the international firm. Secondly, 'market failure' is reflected in the existence of quasi-monopoly profits, (or rent) from technology, management skill, differentiated product, and marketing or advertising know-how in imperfect markets.³⁹

TABLE 2

MOTIVATION FOR U.K. DIRECT INVESTMENT 1870-1939

Reasons	% of all reasons (Firms gave more than one reason in most cases)	% of all firms		
		Yes	No	Unknown
Technology	24	50	36	14
Sell Vertically	21	45	43	12
Raw Material Vertically	15	32	57	11
Tariff	15	31	52	17
Protect Existing Market	8	16	66	18
'Undefined' Market Failure	6	13	68	19
Sell Horizontally	6	12	72	16
Produce Horizontally	5	11	73	16

Source: Sample of 119 firms.

Given the firms gave multiple-reasons for direct investment, the first part of Table 2 ranks specific "market failure" for the 119 firms in the sample as the motivation for direct investment. Most importantly British firms which invested abroad had a technology-lead, created a vertical selling organisation or acquired raw materials vertically and aimed to avoid tariffs. The second part of Table 2 shows that 50% of all firms expanded abroad, in part, because of a technology advantage while 45% of all firms sought to sell vertically. The importance of vertical selling reflects the bias of U.K. multinationals towards consumer goods in

³⁹ *Ibid.* See also H.G. JOHNSON, "The Efficiency and Welfare Complications of the International Corporation" in C. KINDLEBERGER (ed), *The International Corporation*, MIT Press, pp. 35-39.

high per capita income markets. For example, in Table 3, which breaks down the type of market failure by industrial categories, vertical selling was a major motivation for direct investment in drink, food, electrical engineering, metal manufacture, metal goods, textiles, leather, fur and other manufacturing which are largely consumer oriented. Vertical raw material expansion ranks as the most important reason for food, timber and metal manufacture.

Secondly, technology advantages dominated electrical and non-electrical engineering, vehicles and chemicals. Tariffs, the third major reason behind direct investment, ranked high in

TABLE 3
THE THREE MOST IMPORTANT REASONS FOR DIRECT INVESTMENT
BY INDUSTRY (%)

	Technology	Sell Vertical	Raw Material Vertical	Tariff	Protect Existing Mkt	Sell Horizontally	Produce Horizontally
1. Food	20	23	38				
2. Drink		33		33	33		
3. Chemicals (soap, plaster, rubber)	25	15		21	14		
4. Engineering Electrical	40	29		7			
5. Engineering Non-Electrical	40	20		15			
6. Metal Manuf. (iron/steel, tubs, copper, alumn., lead, zinc)	21	29	29				
7. Shipbuilding							
8. Vehicles	33			33		20	
9. Metal Goods (hardware chain, nail, cutlery, tools, pins, brass)	26	30		22			
10. Textiles		23		27	23		
11. Leather/Fur		29					29
12. Clothing							
13. Bricks, Pottery, Glass, Cement, Clay			25		25	20	
14. Timber	20						
15. Paper Printing					33		
16. Other (matches, tobacco)	29	41	12				

Source: Sample of 119 firms.

textiles, paper and printing, vehicles, and chemicals as the motivation for direct investment. In the case of textiles, tariffs clearly reflect the effort of late industrialising countries to protect infant textile manufacture from competition accounting for the well-known problems of British textile exports after 1900.

The sample of 119 firms supports the market failure approach. Our thesis can be strengthened by combining the Chandler national model for Britain and America where "strategies" by entrepreneurs concentrated on creating national selling and distributing networks to replace the inefficient market with Caves's model of direct investment abroad. Vertical integration, which was learned in the home market before being transferred abroad, was an entrepreneurial-initiated strategy of firm growth. In Table 4, direct investments in either a selling branch with agents, depots and sub-branches or production facilities followed the overseas visits by "entrepreneurs". Moreover selling networks abroad were successful in large part due to the advantages of a differentiated product and marketing expertise developed in the home market. Lever's innovations in marketing, which explains the market concentration in the soap sector in Britain, were used in Australia where expenditure on advertising reached 19% of net sales value in the late 1930s.⁴⁰ In Australia, after a start in soap production in 1899, Lever controlled Kitchen and W.H. Burford and Sons his two largest competitors by 1914.⁴¹ In South Africa, within five years of local production, Lever had moved from being a mere importer to owning or controlling the great majority of the local soap manufacturing industry.⁴² In food, A. Bird and Sons had been advertising abroad since the 1840s and in the first decade of the XXth century had an advertising manager;⁴³

⁴⁰ FIELDHOUSE, *Unilever Overseas*, pp. 120-1; EDWARDS, *Competition and Monopoly in the British Soap Industry*, London (1962), pp. 148-50.

⁴¹ FIELDHOUSE, *Unilever Overseas*, pp. 66-9.

⁴² *Ibid.*, pp. 105-7.

⁴³ *The Food Makers: A History of General Food Ltd.*, private (1972).

TABLE 4

'ENTREPRENEUR' RESPONSIBLE
FOR INTEGRATION INTO SALES AND/OR PRODUCTION

Position	Company	Product	Year	Country of Direct Investment
Owner	Unilever	Chemical/Food	1892-95	Canada, Australia
Director	Cadbury	Food	1882	Australia, Canada, US
Director	John Dickinson Co.	Paper	1886	Australia
Director	Eadie Bros.	Engineers	1896	India
Director	Evans Medical	Chemicals	1862	Canada
Director	J.H. Fenner	Industrial Belts	1902-20	Europe
Director	Gourcock Ropework	Rope	1870-1900	South America
Director	J. Harrison	Shipping	1860s	South America, US
Director	Harvey Co.	Engineers	1891	South Africa
Director	William Heap	Engineers	1900-10	Canada
Director	Holling & Vigella	Textiles	1911-14	US, Canada, Europe
Director	Holman Brothers	Engineers	1898	South Africa
Director	Kenyon	Textiles	1871	Russia
Director	Merz & McLellan	Electrical	1901-12	Australia, S. America
Director	Metal Box	Metal Goods	1933	India, South Africa
Director	Ransomes	Engineers	1875-1914	Europe
Director	Rickett & Sons	Chemical	1884	Europe
Director	Smedley-HP	Foods	1900	Canada
Owner	Smith-Nephew	Surgical Dress.	1906	Canada
Director	Waygood	Engineers	1903-11	USA, India, Australia
Director	Weir	Engineers	1902-10	Europe
Director	Laughton Sons	Jewellery	1934	Australia

Cadbury had established an advertising department by 1905 as had Fry's; Smedley, of H.P. sauce, were advertising heavily by 1910; and Huntley and Palmers, the biscuit makers, had a long history of advertising at home before expanding abroad. Other companies that advertised at home and abroad included Jeyes since 1881; Laughton & Sons, jewellery makers, who advertised on the radio in the late 1930; Ransomes who produced multilingual catalogues by the 1880's in Arabic as well as Russian, Dutch, Greek and Estonian; Rickett & Sons who advertised in Australia, New Zealand, South Africa by 1888; and Yardley's who had advertised

cosmetics and toiletries since 1856 and established an 'Arts Department' to package Yardley products by the early 1920s.

In the above cases, each firm was characterised by product differentiation with inter-firm dependency in an imperfect sellers market. These examples reinforce the link between home oligopolistic market structure and British direct investment in selling, distribution and branch production abroad. U.K. direct investment abroad, as shown in Table 5, tended to be distributed in high concentration industries. The exception is the engineering industry with a relatively low concentration ratio while accounting for almost one quarter of British direct investment. In an industry noted for its heterogeneous output, Hannah has suggested that the mergers in the electrical sector brought together manufacturing and technology on a large scale while leaving scope for smaller specialist firms.⁴⁴ Thus three large electrical manufacturing firms dominated the market by 1931 even though the industry had a relatively low concentration ratio. The effect of home market mergers in electrical engineering elevated technology leadership not only as a major domestic growth impetus⁴⁵ but as the crucial motivation for investment abroad in contrast to other industry classifications. (See Table 3).

The ability and motivation for vertical integration abroad can be more fully understood in the light of the importance of exports and sale organisation before the direct investment. As discussed earlier, both Wilkins for U.S. and Franko for European multinationals emphasised the roles of exports as a prerequisite to direct investment.⁴⁶ For all U.K. multinationals where information is available, 94% exported the product before direct investment, and more importantly, 60% had export departments while investing abroad. In all the cases for which information was available,

⁴⁴ HANNAH, *The Rise of the Corporate Economy*, London (1976), pp. 125-27.

⁴⁵ *Ibid.*

⁴⁶ See pp. 4-5 above.

TABLE 5

COMPARISON U.K. INVESTMENT
ABROAD AND DOMESTIC CONCENTRATION

	U.K. Investment (%)	Share of Largest Five Firms	
		1919	1930
1. Food	12	38.0	74.0
2. Drink	1	25.7	40.6
3. Chemicals	13	61.3	56.3
4. Electrical Engineering	10	43.8	51.9
5. Non-Electrical Engineering	13	46.3	56.2
6. Metal Manufacture	5	28.7	45.9
7. Shipbuilding	0	64.6	87.7
8. Vehicles	3	34.1	66.5
9. Metal Goods	9	68.0	87.1
10. Textiles	10	47.4	64.0
11. Leather/Fur	< 1	NA	NA
12. Clothing	< 1	33.1	58.0
13. Brick/Clay	1	NA	NA
14. Timber	1	NA	NA
15. Paper/Printing	4	40.8	73.8
16. Other Manufacturing	7	49.6	84.8

Source: Sample of 119 firms.

L. HANNAH, *The Rise of the Corporate Economy*, p. 225.

99% of all British multinationals had agency agreements and 70% overseas travellers before their initial foreign investments.

Unfortunately, little work has been done on the role of agency agreements in British trade.⁴⁷ Most agencies had "roving ambassadors" who sought to extend their company's representation by door to door visits to British firms with overseas commitments. For example, Shaw Wallace and Co., a trading company with tea estates and timber concessions in the East, became the agents for Union Marine Insurance through a "chance" call by the Shaw Wallace Far Eastern Inspector at the Union's Liverpool

⁴⁷ An exception is R. MUNTING, "Rarismes in Russia: An English Agricultural Engineering Company's Trade with Russia to 1917", *EHR*, XXXI, (1978), pp. 257-269.

Head Office.⁴⁸ Undoubtedly agencies were frequently efficient and for many firms, such as coal and cotton, indispensable. For example, Ransomes, the Ipswich agricultural machinery exporters, calculated that a £10 thousand a year trade would be required to make a Paris branch depot economically viable while the French agents required a trade of less than 2 thousand per year.⁴⁹ Edward Curon, a firm of furnace makers, had nearly 100 agents by 1935, while other firms, such as Simon Engineering, employed both local and full-time company agents.

However, there is evidence that the agency networks controlling exports involved high transaction costs in terms of enforcement by the principals. The move from agency to direct selling organisations illustrates the ability of the firm to internalise within its structure inefficient specialised firms created by the market. For example, many agents sought large discounts, demanded sole agencies and were lax in paperwork and payments. Ransomes, encountered "inefficient" agents in Spain and India in 1919,⁵⁰ while Ransomes' British based travelling representatives made numerous trips to Italy to cajole agents between 1870 and 1914.⁵¹ During 1883-4 Ransomes were involved in a long correspondence over discounts, sole agency rights and payments with their Bucharest agents which ended with the observation that "Freund was perfectly honest but a very difficult man to please".⁵² Other Ransomes' agents were neither honest nor finally pleased. For example, in 1867 their Russian agents left the business after "having carried on in a discreditable manner"; the Saville agency was declared bankrupt in 1880 and in 1900 the account was closed with their agents since 1885 in Moldavia.⁵³ In 1929 Thomas

⁴⁸ *A History of Shaw Wallace & Co.*, private (1965).

⁴⁹ *Ransomes Agency Books*, Institute of Agricultural History, Reading: G. PALMER, *The History of the Orwell Works*, (unpublished notes).

⁵⁰ *Ransomes Agency Books*; MUNTING, "Ransomes in Russia", pp. 260-3.

⁵¹ *Ransomes Agency Books*.

⁵² *Ibid.*

⁵³ *Ibid.*

Fenner, makers of leather belts for machinery, established a branch in India after reporting that the Indian agents were "unsatisfactory."⁵⁴ In 1902 William Weir, unhappy with Marius Jullien his French agent wrote, "I can not understand how France can have a good navy without Weir pumps",⁵⁵ and in 1903 urged the agent "to do your best to obtain an introduction of our Feed Pumps which are now used in every navy in the world except the French Navy".⁵⁶ John Dickinson & Co., when C. W. Scott their Indian agents since 1872, went bankrupt in 1880, were forced to establish a branch house with a sales and warehouse organisation.⁵⁷ The Cape Asbestos Co., after their sole German agents ran into debt in 1898 formed a sales branch under Head Office control.⁵⁸ The engine building firm of Harvey & Co., sent a director to investigate agency debts in South Africa in 1891 which resulted in the agency being replaced by a fully owned sales branch.⁵⁹ As general policy two of Britain's most successful pre-1939 multinationals, Lever Brothers and Brunner Mond, replaced agents with selling companies where possible. Reader suggested that in the 1920s Brunner Mond replaced agents in order to determine and gain control of prices, terms of business, and to develop vigorous sales promotion.⁶⁰ More importantly Reader argues that by-passing agents "was essentially the large exporter's way of doing business and not peculiar to Brunner Mond".⁶¹ Agents involved costs, including costs of information and costs of enforcing contracts, that in many cases exceeded the costs in overheads, paying European management and training

⁵⁴ R. DAVIES, *Twenty One and a Half Bishops Lane: A History of J.H. Fenner & Co. Ltd.*, private (1961).

⁵⁵ W.J. READER, *The Weir Group: A Centenary History*, London (1971), p. 37.

⁵⁶ *Ibid.*

⁵⁷ J. EVANS, *The Endless Web: John Dickinson & Co., 1804-1954*, London, (1955).

⁵⁸ *Cape Asbestos: The Story of Cape Asbestos Co. Ltd., 1893-1953*, private (1953).

⁵⁹ E. VALE, *The Harvey's of Hoyle*, private (1966), p. 44.

⁶⁰ W.J. READER, *Imperial Chemical Industries: A History*, Vol. 1, Oxford, (1970), pp. 335-6.

⁶¹ *Ibid.*

local staff involved in the establishment of branches. The costs of enforcement for those companies who utilised agents, like J.H. Fenner, Cape Asbestos, Cadbury, Ransomes, meant full-time staff who travelled to organise and control their agents or, as in the case of Weir, frequent visits by directors.

Historians have assumed a simple pattern of U.K. investment, directed, distributed and concentrated in the white Dominions of the Empire.⁶² Ranking the number of subsidiaries established or acquired in Table 6, over 50 percent of British direct investment was in the Empire and much of that biased towards the white Commonwealth. However, for the whole period, the U.S. and France ranked fourth and fifth as countries receiving British investment. In the pre-1914 period the U.S. market is tied second with South Africa and ahead of Canada as an area of British selling activity. This contradicts Chandler's recent summary of British transnational branch selling as preferring the white Commonwealth, including New Zealand over India and the rest of the world.⁶³ Rather than counting subsidiaries, Table 7 counts the number of parent firms making at least one direct investment in the Empire non-Empire and both. For the whole period, the firms investing exclusively in non-Empire and Empire markets are the same. Indeed, when private direct investment is broken at 1914, a larger proportion of firms invested exclusively in non-Empire rather than Empire countries before 1914.

These results provide little support for Stopford's claim that during the Great Victorian Depression that the Empire was a market of least resistance for British firms and Chandler's statement that in the XXth century more firms ventured into the United States and Continental European markets.⁶⁴ If anything,

⁶² A.D. CHANDLER, "The Growth of the Transnational Industrial Firm in the United States and the United Kingdom: A Comparative Analysis", *EHR*, Second Series, XXXIII (1980), p. 401.

⁶³ *Ibid.*

⁶⁴ *Ibid.*; STOPFORD, "Origins of British-Based Multinationals", p. 313.

TABLE 6

GEOGRAPHIC DISTRIBUTION BY SUBSIDIARIES OF BRITISH DIRECT
INVESTMENT 1870-1939 PRE AND POST-1914
(%)

Country	Pre- 1914	Post- 1914	Total		Pre- 1914	Post- 1914	Total
Australia	17	17	17	Empire	52	58	56
South Africa	11	14	13	Europe	25	21	23
Canada	10	11	11	America	11	9	10
U.S.	11	9	10	South America	5	5	5
France	9	9	9	Asia	4	4	4
India	7	7	7	Africa	3	2	2
New Zealand	3	6	5				
Germany	3	3	3				
All other	29	24	25				

TABLE 7

DIRECT INVESTMENT BY FIRMS
(%)

	Empire	Non-Empire	Both
1870-1939	37	37	26
Pre-1914	36	43	21
Post-1914	39	32	29

TABLE 8

INVESTMENTS IN SUBSIDIARIES ONLY EMPIRE,
ONLY NON-EMPIRE, AND BOTH
(%)

	One Investment	More Than One Investment
Only Empire	53	47
Only-Non-Empire	71	29
Both	38	62

the Empire was a safe haven for British investment in the inter-war years rather than the pre-1914 period. There is no evidence that British firms before 1914 sought 'underdeveloped' regions at the expense of challenging the technically and competitively more energetic firms in world's developed markets.⁶⁵ However, as Table 8 shows, firms which invested in Empire-only markets, had more branches than firms which invested in only non-Empire markets. The fact that multinational firms in the Empire-only category were larger than firms in the only non-Empire group reflected advantages of high income markets to British firms with branded differentiated products rather than advantages of being part of the Empire. Support for this conclusion is available in Table 6 where the high income American and French markets rank above the low per capita income Empire markets as major areas of British investment.

TABLE 9

POST-1914 INVESTMENT PATTERNS

Firms Invest in	Post -1914 Investment in			
	Only Empire	Only Non-Empire	Both	Neither
Empire Before 1914	15	5	28	53
Non-Empire Before 1914	17	9	26	49

To gain some insight into the pre-1914 pioneering multinationals, Table 9 shows that the investment patterns for firms which had Empire investment before 1914 and non-Empire investment before 1914 tended to invest in the same proportions in the only-Empire, only non-Empire, both and neither categories after 1914. This evidence does not support Stopford's contention that pioneering pre-1914 Empire investing firms gain "special experience" and security which allowed them to branch

⁶⁵ *Ibid.*

out into non-Empire markets after the war.⁶⁶ Nor is the hypothesis that British manufacturers who sought to control sources of raw materials for their own factories were biased to Empire sources before 1914 sustained.⁶⁷ In the pre-1914 period Table 10 indicates there was little difference in the proportion of firms making Empire as opposed to non-Empire investments when

GEOGRAPHIC AREA OF FIRMS MAKING
RAW VERTICAL DIRECT INVESTMENT
(%)

TABLE 10

	Pre-1914	Post-1914
Empire	46	40
Non-Empire	39	25
Both	15	35

raw material was one motive for investment. The tendency in the post-1914 period was for raw material investing firms to invest in both Empire and non-Empire markets at the expense of exclusive non-Empire market investment. Of course, the firms in Table 10 undertook raw material vertical integration as only one of several reasons for direct investments and these other reasons might have been relatively more important than vertical backward integration to secure raw material supplies in determining the type of market for overseas manufacturing.

The pattern of investment becomes a little clearer when the gap between the initial and subsequent investment is considered. Table 11 shows a continual shortening in the time lag between the initial and subsequent investment over the 70 year period under study. Before 1900, most subsequent investment followed the initial investment by seven or more years, while after 1900

⁶⁶ *Ibid.*, p. 329.

⁶⁷ *Ibid.*, p. 323-5.

most firms reinvested within 3 years of the initial overseas venture. The hypothesis that the shortening of the time gap between initial and subsequent direct investments reflected a structural change in U.K. multinational behaviour was confirmed by a Chi-square test of significance for the decades 1870-1900, 1900-20, and 1920-39.⁶⁸ The structural change reflected in the shortening of the gap between initial and subsequent investments was caused by the shift in British direct investment from branch selling to branch production. From Table 12, selling outranked production abroad before the First World War, while production abroad was the major form of overseas investment since 1919. The 1919-29 period fits this prescription since 53% of the selling investments in the 1919-1929 period were concentrated in 1919-20 due to short run post-war readjustments.

TABLE 11

GAP BETWEEN INITIAL AND SUBSEQUENT DIRECT INVESTMENT
(%)

	1870s	1880s	1890s	1900s	1910s	1920s	1930s
Same year	8	0	31	17	22	26	25
1-3	0	0	8	13	6	29	13
4-6	8	0	0	9	0	16	0
7-10	0	9	0	0	22	0	0
11-20	8	18	0	13	6	0	n.a.
21 +	22	18	23	13	0	0	n.a.
N further investment	54	55	38	35	44	29	62

Indeed the high level of total direct investments in Table 12, both in the 1920s and 1930s, stands in contrast with portfolio investment which fell from 80% of all issues in 1910-13 to 16% in 1934-38.⁶⁹ Table 12 provides convincing evidence of the "maturity" of

⁶⁸ χ^2 value of 18.238 with 6 degrees of freedom is significant at .01 level of significance.

⁶⁹ A. KAHN, *Great Britain in the World Economy*, London, (1946), p. 139.

TABLE 12

DISTRIBUTION INVESTMENT BETWEEN SELLING
AND PRODUCTION AND TOTAL DIRECT INVESTMENT
(%)

	Selling	Production	Total
1870-1879	5	2	3
1880-1889	5	2	3
1890-1900	9	8	9
1900-1914	23	22	19
1919-1929	41	34	39
1930-1939	17	32	27

British overseas investment in terms of replacing selling networks with branch production. The "coming of age" of British direct investment is a story of U.K. investment in the inter-war years.

Conclusion

Direct investment by British multinationals before 1939 was conditioned by the structure and experience obtained in the home market. A prerequisite to direct investment abroad was the development of vertically integrated entrepreneurial enterprises in a domestic "corporate economy". The experience gained by firms in the oligopolistic home market in terms of product differentiation, advertising, technology and vertical integration was transferred to high income foreign markets. British multinationals replaced the market by internalising market functions within the international vertically integrated enterprise. Selling and distributing organisations and branch production replaced exports through agents because the costs of transacting using the market were greater than internal firm costs involved in selling and production. British direct investment focused on high income markets in the Empire, America or Europe. Empire exclusive British multinationals, although larger than non-Empire firms, do not seem to

have gained skills making them more "effective" competitors than only non-Empire investing firms. In the inter-war years, there was a maturing of all British direct investment with a shift from selling to branch production. U.K. multinationals do not show evidence of failure, but rather pre-1939 direct investment was purposeful and largely a success story.

The study of pre-1939 U.K. direct investment requires a more detailed study of industry cases, quantitative testing of direct investment models, comparative work with U.S. investment, estimates of direct investment and some analysis of the impact of British investment on the domestic market and the host economy. Recent business history has shown an interest in expanding our knowledge of the corporate economy, giant corporations and multinational firms. Much work still remains to be done. Until there has been considerable secondary work on firm and industry case studies, attempts to uncover the full effects of British pre-1939 direct investment will remain in the realm of conjecture.