CHAPTER 7

GLOBALIZATION

GEOFFREY JONES

7.1 Introduction

Globalization is a central issue, and perhaps the central issue, in business history. The radical shrinking of distance which began in the nineteenth century, but which had a much longer history, transformed the business of firms and entrepreneurs, and transformed the world in which they operated. By the twenty-first century few firms anywhere in the world, even small enterprises, were unaffected by some aspect of globalization, while large corporations were at the heart of the process.

The extensive literature on globalization has attracted scholars from many areas of history and the social sciences. The timing, determinants, and consequences of globalization remain highly contested. Different academic disciplines even differ in their definitions of this phenomenon. Economists have stressed the integration of national markets for capital, commodities, and labor (Bordo et al. 2003). Geographers have spoken of the “compression” of space and time (Harvey 1989). Others have described a “process of increasing integration in world civilization” (Kogut 1997).

Historians have been important participants in globalization debates. They have tracked the historical origins of globalization. In the process, they have established both that much that has been assumed to be new is not new and that globalization has been far from being a linear process (Hirst and Thompson 1999). Many subfields of history have contributed to this literature. Economic historians have provided quantitative evidence on the integration, or otherwise, of markets, over time (O’Rourke and Williamson 1999). Financial historians have traced the globalization
of capital markets back to the seventeenth century (Neal 2000; Fiandra and Zumer 2004). Imperial historians have recast the history of European empires in terms of globalization (Cain and Hopkins 2001; Bayley 2004).

Within this wider context, business historians have made distinctive contributions. They have highlighted the importance of entrepreneurs and firms, rather than markets and technologies, in the history of globalization. They have shown that business enterprises have not simply responded to global markets, but have often created them. It is noteworthy that business historians were interested in the global expansion of business long before globalization as such was identified as an important phenomenon. Mira Wilkins, the doyen of historians of international business, published her first major study in this area—concerning the international expansion of the Ford Motor Company—as early as 1964 (Wilkins and Hill 1964). This was barely four years after the term “multinational” was coined. During the 1970s, she published what have become the classic studies on the historical growth of US multinationals from the nineteenth century (Wilkins 1970, 1974).

Until recently, much of the business history literature on globalization was focused on the history of multinationals. There are literature reviews on this domain in both short essays (Wilkins 2001; Jones 2003) and in a number of anthologies (Wilkins 1993; Jones 1993b). This literature is now being explicitly integrated within the history of globalization (Jones 2005a). This chapter extends this approach by focusing on the contribution of business historians to understanding the history of globalization. The essay suggests that globalization perspectives progressively replace national ones, new research agendas and methodologies will need to be employed.

### 7.2 Origins and Dynamics

#### 7.2.1 Antecedents

When did global business begin? Moore and Lewis (1999) maintain that international trade began to develop in the Near East around 3500 BCE. They identify the first multinationals appearing in the Old Assyrian Kingdom shortly after 2000 BCE. However, the latter claim raises the issue whether the term multinational can legitimately be used before “nation states” as such existed.

During the following centuries, empires rose and fell, trade routes opened and closed, and international commerce expanded and contracted in response to this shifting environment. The integration of world civilization and the growth of international commerce was never a continuous process. There were constant shocks and discontinuities and periodic backlashes. The Voyages of Discovery of Spanish and Portuguese explorers to the New World and Asia in the fifteenth and sixteenth centuries saw transfers of technology—and disease—across continents. Entire civilizations were decimated in the process. The New World provided large supplies of the silver required by China, in exchange for which European merchants purchased manufactured and other exotic goods from the sophisticated Chinese economy. Some monetary historians, employing a “world history” framework, regard this international silver trade at the center of their contention that “a highly integrated global economy has existed since the sixteenth century” (Flynn and Giráldez 2002). There is little research on the business enterprises which traded the silver and other commodities during this era.

Seventeenth-century Europe saw the creation of state-sponsored trading companies such as the East India Companies in Asia, the Royal Africa Company, and the Hudson’s Bay Company to support colonial trading systems. They became the world’s first large-scale business organizations, which some see as “proto-multinationals” (Carlos and Nicholas 1988; Carlos and Kruse 1996), and others as “quasi-governments” (Pomeranz 2000). The English East India Company grew as a vertically integrated firm whose activities spanned the procurement of commodities in Asia to their wholesaling in Europe, and which from the 1760s began to acquire political power on the Indian subcontinent (Bowen et al. 2002). Smaller firms traded in human beings, transporting ten million Africans to the Americas between the sixteenth and nineteenth centuries.

By the eighteenth century, there was a vibrant Atlantic economy (Hancock 1997). The “great divergence” between Western Europe and East Asia which became apparent in the late eighteenth century may, to a large extent, have been due to European trade with the Americas, which provided new crops that in turn improved nutritional standards, allowed for population growth, and more generally, allowed Europe to grow along resource-intensive, labor-saving paths (Pomeranz 2000). However, geographical distance remained an enormous obstacle to the growth of firms beyond their local regions. It continued to be exceedingly difficult, at least without government charters, to own and control business activities spread over large distances.

#### 7.2.2 The First Global Economy

Globalization intensified greatly during the second half of the nineteenth century. This chapter follows the widespread, if not universally accepted, view that this led to the creation of a “first global economy”, while acknowledging the work cited earlier that there is significant evidence of “globalization” in earlier centuries. Quantitative work by economic historians has shown that world capital, commodity, and labor markets had become closely integrated by 1914 (Bordo et al. 2003). Beginning in the early nineteenth century, and accelerating from the 1880s, thousands of firms...
crossed borders, building the sinews of the first global economy. Figure 7.1 provides a figurative illustration of the historical role of firms in worldwide economic integration.

Economists typically count the multinational investment using the measure of foreign direct investment (FDI). FDI, in contrast to portfolio investment, involves a cross-border flow of both capital and management control. The wholly inadequate historical statistics for all types of foreign investment, which reached very large levels during the nineteenth century, mean that estimating the overall size of FDI is problematic. Long believed to have been primarily portfolio, Dunning (1983) has suggested that in 1914 one-third of total international investment, may have taken this form. This amounted to $44.6 billion ($229 billion in 2006 dollars), or the equivalent of 9 percent of world output, a ratio not seen again until the 1990s. However, the variety of corporate forms used to invest across borders in this era make the identification of the relative shares of portfolio and FDI problematic. In her studies of the history of foreign investment in the United States, Wilkins (1989, 2004) considered both types of capital flow.

A number of factors prompted a rapid globalization of business before 1914. First, the advent of modern economic growth, beginning in eighteenth-century England, began a process which saw an accelerating search for markets for manufactured goods, and supplies of foodstuffs and raw materials.

Second, the importance of geographical distance was dramatically reduced by technology. Although global trade networks may have been present since the sixteenth century and functioned as an important driver of change in the world economy, transport costs were very high, and periodic wars further disrupted international commerce. Findlay and O’Rourke (2003) suggest that world trade may only have grown a little over one percent per year between 1500 and 1800. Railroads and steamships shrank distance, opening new markets and making possible the exploitation of natural resources in distant lands more feasible. As or more important was the revolution in communications caused by the telegraph. The first successful trans-Atlantic cable connection was in 1866. Information could now cross continents in minutes. It was now feasible, if still challenging, for entrepreneurs to really manage businesses across borders.

Third, what can be termed the political distance between countries fell dramatically. As the nineteenth century progressed, liberal economic policies took hold in many countries as governments withdrew from economic activities. Most governments treated foreign-owned firms more or less like domestic firms. People could move countries without passports or work visas. The growth of tariffs from mid-century did not obstruct this mobility of capital and people. As important was imperialism, which represented the forcible removal of political barriers to globalization (Cain and Hopkins 2002; Bayley 2004). Even in nominally independent Latin America and elsewhere, the British, and later the Americans, imposed their view of international law which guaranteed property rights. Uncompensated seizure was considered robbery, and the use of unilateral force was considered a legal and legitimate response (Lipson 1985).

Economists and economic historians typically describe the creation of the nineteenth-century global economy without mentioning a single business enterprise (Bordo et al. 2003). Business historians have shown why this is misleading. Firms drove globalization by creating trade flows, constructing marketing channels, building infrastructure, and creating markets. By 1914 the production or marketing of most of the world’s mineral resources was controlled by US and European firms. A high proportion of world trade in some commodities was intra-firm. In the exploitation of world resources, large corporations co-existed with entrepreneurial firms and other types of business enterprise. German metal trading companies, of which the largest was Metallgesellschaft, used equity and non-equity modes to control the mining, smelting, and sale of many of the world’s most important nonferrous metals (Becker 2002). Foreign firms also dominated the production and marketing of many renewable resources including rubber, tropical fruits, and tea. Recent research on commodity chains have stressed their historical role in the process of world economic integration (Topik et al. 2006).

Much of the infrastructure of the global economy—the telegraph, ports, and electricity and gas utilities—was put in place by international business enterprises (McDowell 1988; Hilly 2002; Ahvenainen 2004). Trading companies both facilitated and created trade flows between developed and developing countries, often investing in plantations, mining, and processing (Jones 1998, 2000; Jonker and Sluyterman 2000; Bonin and Cahn 2001; Yonekawa 1990). International shipping companies carried the world’s oceanic trade and moved millions of people (Harlaftis 1993; Harlaftis and Theotokas 2004; Muoro 2003). European overseas banks built extensive branch networks throughout the Southern Hemisphere and
Asia, financing the research from manufactured goods for commodities (Jones 1990a, 1993a; Meulou 1990).

Business historians have also shown how hundreds of manufacturing companies were instrumental in transferring products and brands across borders during the first global economy. The first instances of multinational manufacturing included small Swiss cotton textile firms in the 1890s (Schröter 1993a). The phenomenon intensified from mid-century. Many were small entrepreneurial ventures, but a handful became global giants. By 1914 Singer Sewing Machines, an early pioneer of foreign direct investment, accounted for 90 percent of the sewing machines built in the world. Singer's development of installment plans enabled millions of relatively low income consumers to purchase the machine (Carstensen 1984).

Multinational manufacturing was stimulated by the spread of protectionism from the late nineteenth century. Firms were able to “jump” over the tariff barriers which blocked their exports by establishing local production. This strategy was prominent in industries such as chemicals, machinery, and branded consumer products. Alternative strategies such as licensing and franchising were discouraged because of the complexity of writing contracts for complex technologies and for brand names (Nicholas 1983).

The heterogeneity of business enterprises involved in the first global economy was striking. The firms of different countries varied in their propensity to invest abroad. Britain alone accounted for nearly one half of world FDI in 1914, and the United States and Germany accounted for a further 14 percent each. Firms from a number of small European countries, especially the Netherlands, Sweden, and Switzerland, were very active internationally (Schröter 1993a). Nationality influenced location also. Firms often reduced risks by investing in geographically or culturally proximate regions or in colonial empires. Generally, however, world FDI appears widely dispersed geographically among “rich” and “poor” countries. The United States, Russia, and Canada may have been the world’s largest host economies in 1914 (Wilkins 1994).

Large managerial firms coexisted with numerous small and family-owned firms. While much of the theory of the multinational enterprise suggested that firms developed competences or “advantages” before investing abroad, business historians have shown that European firms, especially from smaller economies such as Sweden, made foreign investments at early stages of their corporate lives (Olsson 1993). Thousands of “free-standing” firms were established in Britain and the Netherlands exclusively to operate internationally, without prior domestic businesses (Wilkins 1988; Wilkins and Schröter 1998). “Born global” firms, believed by some management researchers to be a novel feature of the contemporary global economy (Knight and Cavusgil 2004), existed in their thousands before 1914.

Nor was the creation of the first global economy the preserve of US and Western European firms. The commercial networks established by diaspora communities were important drivers of international business in the first global economy. During the late nineteenth century, the Greek diaspora spread over the Mediterranean, and Russia was active in wide-ranging international commercial and shipping business, creating a cosmopolitan business network based on kinship ties extending over Central Europe and even reaching France and Britain (Minoglou and Louri 1997). European empires provided a political and security umbrella for diaspora to flourish. Brown (1994, 2000) examined the history of the Chinese and Indian commercial diaspora, which operated within and between European empires. Another example was Iraqi Jewish firms, especially the Sassoons, which resettled in British India. During the second half of the nineteenth century, they wrested control over the China opium trade from British rivals such as Jardine Matheson and established businesses spanning Europe and South and East Asia (Betta 2004).

7.2.3 The Disintegration of the First Global Economy

The first global economy began to unravel in 1914 and collapsed in 1929. The disintegration of global commodity, capital, and labor markets has been well-documented, again usually without reference to the strategies of business enterprises (Bordo et al. 2003). A backlash against the first global economy was under way before the First World War. By 1914 Britain, the Netherlands, and Denmark were the only free trading countries left. The United States started to restrict Asian immigration from the 1880s (James 2001). The First World War intensified these trends. Many countries, including the United States, made the use of passports compulsory for the first time and in 1917 required foreign nationals to have visas. Tight immigration controls based on ethnicity were imposed.

The nationality of firms was identified as an issue during the First World War, as governments sequestered affiliates of enemy-owned companies. Despite the rhetoric about “stateless firms” in the late twentieth century, if there was ever an era when the nationality of firms was not important it was before 1914, after which capitalism and business enterprises acquired and retained sharper national identities (Jones 2006). The sequestration of German-owned affiliates by US, British, and other Allied governments not only virtually reduced the stock of German FDI to zero, but also signaled the end of the era when foreign companies could operate in most countries on more or less the same terms as domestic ones. The Russian Revolution in 1917 resulted in France and Belgium losing two-thirds of their total foreign investment. Although the United States shifted from being the world’s largest debtor nation to being a net creditor over the course of the First World War, this was accompanied by a growing nationalism which resulted in major restrictions on foreign ownership in shipping, telecommunications, resources, and other industries (Wilkins 2004). The world became, and remained, riskier for firms crossing borders.
However, business historians have demonstrated that business enterprises were often more robust than an aggregate view of markets would suggest. During the 1920s, there were still many new multinational investments. Schröter (1990) showed that German chemical and other firms, despite a shortage of capital, rebuilt their international distribution networks and even their foreign production subsidiaries. The Great Depression did result in a meltdown of both cross-border capital flows, and the international trading system. Yet there were entrepreneurial responses. While the global level of FDI may have stagnated, new investments continued to be made (Wilkins 1974; Bostock and Jones 1994). The era saw the creation of numerous international cartels which strove to regulate prices and output on a global scale, though they were rarely able to control them for too long before new competitors appeared (Fear, this volume). In industries such as electrical engineering, they filled the governance gap left by the breakdown of the international economy, while their development was often encouraged by national governments (Glimstedt 2001).

Overall, the interwar wars offered a striking paradox. Technology continued to shrink geographical distances. The advent of cinema and radio provided unprecedented opportunities to see lifestyles real or imagined elsewhere. Telephones and automobiles became items of mass consumption, though largely in the United States. Air travel was expensive, but quite widespread. Yet political distance grew. For diverse reasons, governments sought to block foreign companies, trade, and people.

A global economy was only partially restored after the end of the Second World War. World trade barriers were reduced under the auspices of the General Agreement on Tariffs and Trade (GATT), signed in 1947, but most developing countries became progressively closed to international trade. Even the richest countries retained high levels of protection for agricultural products. Immigration controls remained extensive.

The Second World War also further demonstrated the political risks of FDI. The total loss of all German overseas assets, once again as a result of the war, was followed by an extremely subdued level of German FDI until the 1970s, as German firms opted to export rather than engage in FDI as did Japanese firms (Neebe 1990). These developments left world FDI far from a “global” phenomenon after the Second World War. Between 1945 and the mid-1960s, the United States alone may have accounted for 85 percent of all new FDI outflows.

There was a widespread decline in receptivity to foreign firms after the Second World War, especially in developing and post-colonial countries. They were excluded altogether from Soviet Russia, China, and other Communist countries. During the 1970s, extraprilations eliminated virtually all foreign ownership of mining, petroleum, and plantation assets. As a result, vertical integration down to the production level was weakened or eliminated in most commodities (Jones 2009a). Large petroleum corporations responded by switching exploration to the North Sea, Alaska, and other politically "safe" locations (Bamberg 2000).

By 1980 the world stock of US FDI was $500 billion, but this was still only half the size compared to the world economy as a whole than it was in 1914. Two-thirds of all multinational investment was located in Western Europe and North America. The emerging new global economy, unlike the first, was driven by investment, knowledge, and trade flows between rich countries.

7.2.4 The Origins of the Second Global Economy

As suggested in Figure 7.1, a second wave of globalization began during the 1950s and intensified after 1979. In the immediate postwar decades, service firms such as consultants, advertising agencies, hotels, and film distributors were significant conduits for the international diffusion of American management practices, values, and lifestyles. Trading companies developed global networks exploiting information asymmetries. Japan’s general trading companies, or sogo shosha, survived their dismantling by the Allied occupation after the Second World War to become the central players in both Japan’s foreign trade and (until the 1970s) FDI (Yonekawa 1990). World trade in commodities was increasingly handled by giant commodity trading firms such as Cargill, the grain trader and largest private company in the United States (Broehl 1992, 1998).

Multinational banking assumed a new importance. The development of the Eurodollar markets in London from the late 1950s provided a dynamic new source of funding for global capitalism. These unregulated markets captured a rising share of financial intermediation from regulated domestic markets. They were physically located in a small number of financial centers, of which London stood at the apex, and in offshore centers, such as the Cayman Islands, where the primary attraction was not the size of domestic markets, but a combination of regulations and fiscal conditions, and political stability (Jones 1992; Roberts 1994). In one sense, banks escaped from governments, although the new markets (flourished with the tacit, and later explicit, support of the British and US governments (Helleiner 1994).

The physical location of international financial markets in a few geographies formed part of a wider pattern of the concentration of business activity in certain cities and regions. Paradoxically, this phenomenon seems to have intensified just as technological advances permitted greater dispersion of economic activity. New economic geography has identified the advantages of proximity and the importance of agglomeration advantages which help to explain such patterns. Sassen (2001) has argued that London, Tokyo, and New York assumed new importance as the “command centers” of the new global economy. Business historians have documented the origins and evolution of such centers, and the nature of the interaction between various actors which lay at the center of their success. Attention has focused especially on financial centers (Michie 1992; Schenk 2001), although research is now exploring the issue more generally. Merlo and Polese (2006) have...
explained the growth of Milan as an international fashion hub by the 1970s through its accumulation of resources and the ability to harness creative and managerial capabilities.

During the 1950s, the international cartels of the interwar years were dismantled, while US manufacturing companies invested on a large scale in Western Europe, initially in response to the "dollar shortage," which encouraged US firms to establish factories to supply customers in countries that lacked the dollars to buy American products. There was initially little rationalized production, and intra-firm trade was low. However, from the 1960s firms began to seek geographical and functional integration across borders. The process of building integrated production systems was difficult and not linear. European companies such as Unilever were proponents of European economic integration from the 1950s, but struggled over decades to achieve regional integration of their own production and marketing facilities (Jones and Miskell 2005). The history of the corporate role in regional integration strategies over the last forty years remains largely to be written.

7.2.5 The Second Global Economy

From the late 1970s, deregulation and liberalization stimulated increased globalization. China's adoption of market-oriented policies and opening to foreign investors in 1979 was a decisive turning stage in the creation of a second global economy. The collapse of Communism in Russia and Eastern Europe a decade later further re-opened large parts of the globe to foreign firms. By the new century widespread liberalization had re-opened most emerging markets to global capitalism.

Business enterprises were once more the drivers of integration. Multinational investment grew far faster than world exports or world output, and 40 percent of all world trade took place between the subsidiaries of the same firm by 2000. International production systems developed within which firms located different parts of their value chain across the globe, serving as powerful agents of international integration. In some industries international production systems became highly externalized through outsourcing, but large corporations typically continued to control key functions, including brand management and product definition, and setting quality standards. The total stock of world FDI had reached $10.7 trillion by 2005, even though new flows temporarily declined in the early years of the century in response to shocks from terrorism and faltering world equity markets.

In many industries there was consolidation and concentration. The dominant mode of multinational investment became mergers and acquisitions, although this is a mode which business historians have only recently begun to address (Jones and Miskell 2007). During the 1990s, and again during the middle years of the following decade, there were large cross-border merger waves, especially in pharmaceuticals and food, beverages and tobacco, and automobiles. Business historians have started to explore the dynamics of this process at a firm-specific level. Kristensen and Zeitlin (2005) stressed the importance of considering subsidiaries as quasi-independent actors in a case study of how a British engineering multinational grew through mergers to become the world's largest manufacturer of food and drink processing equipment before being acquired itself.

The sustained growth of the Chinese economy after 1979, followed a decade later by accelerating growth in India, resulted in significant geopolitical shifts in economic power. Foreign firms, initially largely owned by overseas Chinese, drove the initial growth of export-orientated industries in China (Huang 2003). A number of corporate histories have discussed the re-entry of Western firms into China, which involved complex negotiations with the authorities and prospective joint venture partners (Dyer et al. 2004; Jones 2005b). Indian business remained largely locally owned, although the fast-growing IT services sector relied heavily on outsourcing from global firms.

The global significance of firms based beyond North America, Western Europe, and Japan increased. During the 1960s and 1970s, some manufacturers from South Korea and Taiwan began to invest abroad, typically in other Asian or other emerging markets. They were usually small-scale and used labor-intensive technology (Lall 1983). A second wave of firms, based in both Asia and Latin America, began to expand globally from the 1980s, often after they had built scale and corporate competences in their protected domestic markets. They were prominent in assembly-based and knowledge-based industries including electronics, automobiles, and telecommunications (Hoesel 1999). These investments often originated from firms embedded in the business groups which characterized emerging markets, including the Korean chaebol (Amsden 2003) and the grupos economicos in Latin America.

A management literature on "emerging giants" has begun to examine how corporations such as Cemex (Mexico), Technit (Argentina), Odebrecht (Brazil), Huawei and Haier (China), and the Tata group (India) grew businesses which were both globally competitive and globally active, despite the challenges of building brands and innovatory capacity, as well as management quality, typically faced by firms based in emerging markets (Khanna and Palepu 2006). A business history literature on such "emerging giants" employing a longer-term perspective, has started to appear (Kosacoff 2002). However business historians face major challenges as many emerging countries lack both the tradition of retaining archives, whether public or private, and enthusiasm for allowing scholars access to them.

The dynamics of the global economy may have lowered the barriers for new entrants compared to earlier decades because of the growing disintegration of production systems and their replacement by networks of interfirm linkages. Firms from emerging markets were sometimes able to piggy-back on incumbent Western or Japanese firms as customers through subcontracting and other linkages.
left managers with little choice but to rely on trust to control and monitor cross-border operations.

Socialization methods of control remained important in European and Asian companies even as transportation and communication improved. They worked effectively especially in industries such as international trading which involved numerous non-routine transactions and in managing operations in developing countries where political and economic conditions were unpredictable. Inter-firm collaboration provided a means of sharing competencies and spreading risks. As a result, large “business groups” were built around French and Belgium “mixed banks”, German electrical companies, and European trading companies (Shiba and Shimotani 1997). In a study of British trading companies in the nineteenth and twentieth centuries, Jones (2000) showed that many ostensibly “free-standing” companies were clustered in business groups linked through equity, debt, cross-directorships, and business flows. A striking feature of these organizational forms was also their persistence, in some cases until the present day. (See also Fruiin, this volume.)

In contrast, US-based firms developed an early preference for formal organization and bureaucratic procedures. They expanded within the large domestic market of the United States using hierarchies and rules, creating many of the world’s largest corporations by the early twentieth century. When they expanded abroad, they also typically used hierarchies rather than networks to manage complex processes. Rules and standardized reporting procedures were the norm in US firms (Chandler 1990; Wilkins 1970).

There was nothing linear about the development of organizational forms. During the interwar years, many firms which operated in several countries became more national in their organization. Trade barriers and exchange controls made cross-border flows of trade between affiliates more difficult and obliged firms to retain profits in host economies, which were often used to diversify along the value chain. The growing political importance of the nationality of firms encouraged the managers of subsidiaries to emphasize their local nature and autonomy.

However, there remained a wide diversity of practice even among firms of the same nationality and in the same industry. Ford and GM both expanded internationally during the interwar years. With the exception of Canada and the British Empire (outside of Great Britain), during most of the 1920s, Ford was highly centralized, while GM was decentralized. In this decade, Ford expanded in Europe with greenfield operations and GM expanded with acquisition (Bonin et al. 2003). Cochran (2000) demonstrated how Japanese, Western, and Chinese-owned firms responded in a variety of organizational forms to the challenges of doing business in China between 1880 and 1937.

In the decades after the Second World War, many large US corporations were organized as coordinated federations in which the parent company exercised quite a close control over overall strategy and sought to transfer knowledge to foreign
affiliates. This model contrasted with the preference of European companies for leaving national entities possessing considerable autonomy. All organizational firms encountered problems when transferring knowledge and information within their enterprises. During the 1960s, Ford opened research and development centers in both Germany and Britain, but with little coordination between them as they were embedded in their respective national organizations (Bonin et al. 2005). Unilever experienced major problems transferring knowledge between its European operations and its US affiliates between the 1940s and the 1980s (Jones 2002). This research calls into question theories which explain the existence of multinationals by their ability to transfer knowledge that is difficult to understand and codify (Kogut and Zander 1993).

Knowledge diffusion within firms was shaped by organizational context. A study of foreign-owned affiliates active in Canada between the 1880s and the 1930s showed that among the major features affecting decisions involving transfers of technology were the role played by managers in the affiliated firm in negotiating for these transfers and the degree of control exercised by the parent company over the Canadian enterprise (Taylor 1994).

As the process of globalization intensified in the late twentieth century, there was a search for more flexible forms of organization (Nohria and Ghoshal 1997). Business historians could observe that in the periods of fast globalization seen in both the late nineteenth and late twentieth centuries, alliances, joint ventures, and other network modes were widely used when crossing borders.

### 7.4 Public Policy and Global Business

The historical growth of global business was heavily shaped by public policy. Business historians have traced the cyclical shifts in policy from the extreme openness seen in the first global economy to the restrictions and controls during much of the twentieth century and the shift toward liberalization from the 1980s.

In retrospect, it was the degree of openness towards foreign firms in the nineteenth century which was striking. The growth of more restrictive policies was evident from the First World War, yet even Nazi regime Germany tolerated the operations of foreign firms, provided they followed government policies, notably the removal of Jews from their employment (Cheape 1988). Business enterprises in turn were often tolerant in their relationships with authoritarian regimes in foreign countries. The complex, but often ethically ambiguous, relationship of foreign firms with the Nazi regime in Germany has been extensively studied by business historians over the last decade (Turner 2005; Korbak and Hansen 2004; Nicosia and Huener 2004). Aalders and Wiebes (1996) offer a detailed study of the collaboration of leading Swedish firms with Nazi Germany before and during the Second World War. Wubs (2006) shows, in a study of Unilever during the Second World War, that foreign firms could survive without collaboration during the Nazi occupation in part because of the incoherence in Nazi policy towards foreign companies. As Korbak and Wüstenhagen (2006) show, German firms also faced home country political risk during the Nazi era, and pursued "cloaking" strategies aimed at protecting their international investments.

After the Second World War, sensitivities towards foreign firms grew in most countries. An idiosyncratic example was the upsurge in France during the late 1940s caused by the entry of Coca-Cola. Critics of "Coca-Colonization," who spanned a spectrum from the Communist Party to local wine and mineral water producers, regarded the brand as a symbol of US imperialism. There were moves in France's National Assembly to ban the importation, manufacture and sale of the product. Eventually the company was able to overcome its critics, in part through US diplomatic pressures, although per capita consumption of the drink remained subdued in France for decades thereafter (KuiseI 1993).

Both the United States and Western Europe closed entire industries to foreign firms either through regulation or nationalization. In Japan, the government blocked almost all wholly-owned FDI (Mason 1992). In Europe, exchange controls were used to "screen" inward FDI proposals so they met desired policy goals. Some US firms were blocked by such "screening"; but the actual number was not great (Jones 1990a; Rooth and Scott 2002). During the 1960s, European policies became more restrictive, as the French and British governments in particular sought to establish "national champions" in high-technology sectors, though rarely with success (Mounier-Kuhn 1987; Campbell-Kelly 1990).

In most developing countries, the end of European colonial empires, the spread of Communism, and growing state intervention resulted in a hostile environment for foreign firms. During the last years of colonial rule in countries such as Nigeria and Kenya, British colonial administrators preferred to promote political tranquillity rather than support British or other foreign firms (Tiggar 1998). Decker (2007) has shown how British firms in post-colonial West Africa sought to adjust their strategies, including corporate advertising, to the new local political environment.

Foreign control over resources and utilities aroused the greatest sensitivities. Reactions against foreign firms were particularly strong in countries where a handful of companies dominated natural resources. In Iran the Anglo-Persian Oil Company became a symbol of British imperialism. The nationalization of the company in 1951 and the subsequent Anglo-American overthrow of the Iranian government became key episodes in the tensions between developing hosts and foreign corporations (Ferrier 1983; Bamberg 1994).

Much remains to be learned about the strategies of foreign firms towards public policy. They were sometimes able to assume a local identity even in the most nationalistic environments. In 1947, Sears, the US department store chain, started
a successful foreign business in Mexico, a country which had only a decade earlier expelled foreign oil companies and was widely regarded as highly nationalistic. Sears carefully crafted its marketing and strategy to appeal to Mexicans, representing policies such as profit-sharing, pensions, and low-priced meals—some of which it employed in its operations at home—as in the traditions of the Mexican Revolution (Moreno 2003).

Firms survived, and sometimes flourished, by cooperating with governments. In Brazil during the 1950s and 1960s, the German car maker VW responded much more readily than Ford and GM to the government's mixture of threats and incentives designed to encourage foreign firms to create an automobile industry. It began local manufacturing, and by 1980 VW had helped give Brazil an annual production of over one million vehicles a year, making the country the world's tenth largest industry (Shapiro 1994). Western corporations differed in their tolerance of the risks of emerging markets. Unilever built and retained large business in emerging markets such as India, despite numerous government restrictions, and in Brazil, despite high inflation rates. In contrast, Procter & Gamble preferred to stay out of most emerging markets until the 1990s (Jones 2005b; Dyer et al. 2004). Between the 1960s and the 1980s, intensified political risk led many Western firms to reduce their investments in Africa, but much remains to be researched about this process. An emergent literature is exploring the strategies of multinational firms in apartheid-era South Africa, which have some parallels to some of the issues debated in the case of Nazi Germany regarding the strategies and ethical responsibilities of foreign firms in repressive regimes (Kline 1997; Morgan 2006).

7.5 Global Firms and Global Welfare

It is often asserted that the globalization of the world economy has coincided with growing income inequality. While in 1700 the income gaps between people in different parts of the world were small, by 1914 they were substantial. By the early twenty-first century they were even larger. However, such generalizations mask a wide variety of outcomes, and business historians have yet to identify the specific contributions of global business enterprises. Firm strategies interacted with institutional, policy, and cultural factors in multiple ways.

Business historians have yielded important insights on the impact of globalization at the firm and industry level. They have shown how companies transferred capital, technology, organizational capabilities, and employment across national borders. These transfers were significant and positive even in the case of the United States, whose historiography has not emphasized the external contribution to domestic economic growth. Wilkins (1989) shows the contribution of foreign firms to US industries including chemicals, breweries, mining, and cattle ranching during the nineteenth century. Wilkins (2004) demonstrates the continued importance of foreign firms in some sectors in the United States during the interwar years, despite the faltering of globalization and a growth of government restrictions.

The positive gains from the cross-border transfer of innovation and organizational skills by firms have been identified for other countries. In the case of Britain before the Second World War, foreign—especially American—firms played significant roles in introducing new technologies and marketing methods, creating employment, and improving labor management practices (Jones 1988; Bostock and Jones 1994; Jones and Bostock 1996; Godley 2003). A key issue was the nature of the local response to foreign firms. There was a spectrum of outcomes for local firms, from being forced out of business to being stimulated to become more competitive. Blaich (1984) showed both outcomes in a study of the impact of US machinery firms on German industry before 1914. In sewing machines, some local companies reacted to Singer by reducing their production costs and adopting American manufacturing methods. Others diversified away from sewing machines. Opel became Germany's largest automobile manufacturer.

The positive impact on local firms was lessened if foreign investors were accompanied by suppliers from their own country. This phenomenon was common in the automobile industry. When US automobile companies invested in Europe in the interwar years, they were accompanied by US car body builders, tire companies, manufacturers of wheels, batteries, spark plugs, and window glass (Wilkins 1974). In some cases, their factories were physically located in host countries next to the main automobile assembly plant (Bostock and Jones 1994).

By the interwar years, customer demand for locally adjusted products and rapid service led some manufacturing firms to begin research and development in affiliates. The larger foreign-owned chemical, pharmaceutical, and petroleum firms engaged in R&D in the United States during the interwar years (Wilkins 2004). There is aggregate evidence from patent data that the internationalization of technological activity by large manufacturing firms was quite extensive by the interwar years, but with wide variations between countries, as well as over time (Cantwell 1995). In developing countries, foreign-owned plantation companies often sought to improve crop performance through R&D (Jones 2000; Martin 2003).

The nature of the historical impact of foreign firms on developing countries remains controversial. Multinational investment was widely spread in Asia, Latin America, and Africa during the first global economy. There were income gains to many countries as international firms turned them into major exporters of petroleum, bananas, sugar, rubber, and other commodities. Yet reliance on commodity exports turned out to be risky when prices fell in the interwar years. Corporate strategies also reduced the advantages derived from host economies from their exports. Most minerals and agricultural commodities were exported with only the
minimum of processing. This meant that most value was added to the product in the developed economies.

Foreign firms were large employers of labor at that time. However, expatriates were typically employed in handling the newest technologies and installing and managing complex systems. Training was only provided to local employees to enable them to fill unskilled or semiskilled jobs (Headrick 1988). Piquet (2004) explores this issue in the case of the French-controlled Suez Company, which built and operated the Suez Canal in Egypt between 1854 and 1956. The Canal had a major stimulus on the Egyptian economy, yet until 1936 the Egyptian staff was almost exclusively unskilled workers. The gender implications of the employment policies of foreign firms, in this period and later, have hardly begun to be explored.

Global business sometimes transformed entire eco-systems. In Central America, the operations of US-owned United Fruit (subsequently Chiquita) transformed countries into the famous banana republics. The creation of plantations involved cutting down jungle forests. Drainage and water systems were built, and company towns were built in former jungle areas. United Fruit transformed the Central American Atlantic coastline from a sparsely populated location for scattered Indian tribes and exiled American fortune seekers into a well-organized plantation economy. As bananas were highly susceptible to disease and rapidly depleted soils, they could not be cultivated on the same land for more than about ten years. United Fruit moved from the Atlantic to the Pacific coast and back again. When it left disease-infested lands for newer terrain, it removed infrastructure which had any value. There was also a great change in the composition of the population as labor was imported from Jamaica and elsewhere to work the plantations of Costa Rica, Panama, Guatemala, and Honduras (Bucheli 2005).

The establishment and maintenance of mines, oil fields, plantations, shipping depots, and railroad systems involved the transfer of packages of knowledge to developing economies. Given the absence of appropriate infrastructure in developing countries, foreign enterprises frequently not only introduced technologies specific to their activities, but also social technologies such as police, postal, and education systems. The geographical stickiness of knowledge, or more exactly knowledge about how to achieve and sustain modern economic growth, lies at the heart of the development problems of much of the world. Manufacturing firms had—and have—an incentive to minimize technology leakages to competitors. Knowledge spillovers from foreign firms to developing countries were often disappointing. Many investments in natural resources were enclavist, and there were few inputs of local origin. Much of the value added occurred after the product had left the exporting country. In Latin America, US mining operations were often centered on self-sufficient company towns. Yet during the 1950s and 1960s, many enclaves broke down, and foreign companies contributed to the emergence of large middle classes in some countries (Wilkins 1974).

As important, however, was the limited ability of business enterprises in many countries to learn and absorb new technologies. Japan was the primary exception. Although few Western firms invested in Japan in the early twentieth century, Japanese firms showed a remarkable ability to learn from them. There was dissemination of techniques learned from foreign affiliates as companies emulated one another and as workers changed companies. The creation of the Japanese automobile industry was heavily dependent on spillovers from the US automobile companies which established assembly operations in the 1920s (Wilkins 1990; Mason 1992). There are more recent examples in East Asia and elsewhere (Wang 1997; Schmitz 2004).

However, often in Asia, Africa, and Latin America, indigenous business systems proved less able to absorb foreign capabilities (Birchal 2001). Some powerful local firms did develop, sometimes working with foreign firms. BAT, which had a huge cigarette business in interwar China, made one-third of its sales through a Chinese-owned firm (Cox 2000). There are intriguing regional and ethnic differences which remain hard to explain. In nineteenth-century India, the first elite group to respond to the British was the tiny Parsee community around Bombay. They were extremely active in developing a modern cotton textile industry by the second half of the nineteenth century. Their entrepreneurial success has been variously described as the result of close relations with the colonial authorities, "outsider" minority status, and a "Protestant" style work ethic. However, during the interwar years, Marwaris, originally a trading community from Rajasthan, began building powerful business groups in Calcutta, which eroded the British commercial presence in the interwar years well before the end of colonialism in 1947. Marwari entrepreneurs were competitors rather than collaborators with British interests, and while the Bengalis might have considered them as "outsiders", the British considered them as "insiders". Meanwhile, the cotton textile industry of Ahmedabad was built by "mainstream" Hindus who had lived in the region for generations and who had little relationship at all with the British (Oonk 2004).

After the Second World War, foreign firms continued to transfer organization and technologies across borders, but the shifting geographical location of multinational investment meant that transfers were largely confined to developed countries. Service providers such as management consultants assumed a new importance. During the 1960s, McKinsey in particular diffused the M-form organization in Europe, although it has been shown the transfer of US management practices was "selective" (Kipping 1999; Zeitlin and Herrigel 2000).

The dispersal of innovative activity was quite limited, at least until the 1980s. There is firm-specific evidence to support the case that the largest US and Swedish industrials lost interest in internationalizing their research after the Second World War (Attman and Olsson 1977). A large share of the foreign R&D undertaken between the 1950s and the 1970s was adaptive or development-oriented (Behrman and Fischer 1980). This was largely confined to the larger markets in Western Europe and
North America. The foreign-owned corporate sector in postwar Australia mainly relied on importing innovation undertaken elsewhere (Fleming et al. 2004).

As the subsidiaries of foreign firms grew, adapted to local conditions, and developed specific competences, they became "hybrids". This phenomenon was as old as multinational investment itself, but the term was first used to describe the Japanese transplants built in the US automobile and electronics industries during the 1980s. The Japanese companies transferred parts of their production system, including work teams, limited job classifications, and open plan offices, but other practices, such as consensus decision-making and seniority systems, were not transferred, creating a kind of "hybrid" factory which was neither fully Japanese nor American in its organization (Abo 1994). Studies of the international automobile industry demonstrated how factory management systems were adapted in different contexts (Boyer et al. 1998; Freyssenet 1998). Much research remains to be done on the nature and impact of hybridization. There is a need for more research at the level of the subsidiary. One study of the role of the affiliates of Ericsson and ITT in the twentieth-century Norwegian telecom industry shows how corporate strategies were formulated in response to the often conflicting pressures of the corporate parent and the host government (Christensen 2006).

Research on the historical impact of global firms on consumer preferences and choices remains more suggestive than comprehensive. In most consumer and other products, there has been a transition over the last 150 years from local and regional products and brands, to national ones, to—from the 1960s in particular—"global" products and brands. However, this process was not linear and varied greatly between industries. In some respects, globalization can be seen as the imposition of uniformity. In alcoholic beverages, Lopes (2002) identified the demise of thousands of national and regional brands from the 1960s as firms began to identify "global" brands to be promoted worldwide. Yet globalization and hyper-segmentation of consumer markets often proceeded simultaneously. In the 1950s, for example, margarine was a homogeneous product eaten by bread-eating northern Europeans and their descendants. Subsequently, Unilever used branding, packaging, and research capabilities both to segment the product into health and taste categories and to expand consumption into countries with quite different culinary traditions (Jones 2005b).

The cosmetics industry has generated studies on the relationship between firm strategies and consumption patterns. Houy (2002) explored the marketing strategies and impact of American cosmetics companies in Nazi Germany, which developed large businesses despite nationalistic and sometimes anti-cosmetic rhetoric. Jones (2008) showed, in a study of the globalization of the beauty industry between 1945 and 1980, how firms employed marketing strategies to diffuse products and brands internationally, despite considerable business, economic, and cultural obstacles to globalization in this industry. The process emerges as difficult and complex, however, and by 1980 there remained strong differences between consumer markets. Although US-based firms, which were pre- eminent, exported American beauty ideals, this study suggests that by 1980 globalization had not resulted in the creation of a stereotyped American blond and blue-eyed beauty female ideal as the world standard, although it may have significantly narrowed the range of variation in beauty and hygiene ideals.

7.6 Conclusions

Business historians have demonstrated the extraordinary transformation of business as a result of globalization. They have shown how entrepreneurs built markets beyond their national borders, identified and exploited natural resources all over the globe, and figured out ways to control and manage geographically dispersed operations. They have investigated how firms interacted with the governments which at various times promoted and obstructed globalization. They have explored the impact of the globalization of business on countries and social groups. They have demonstrated the lack of linearity in the globalization of business, and provided evidence that the globalization of business has historically resulted in losers as well as winners.

In contrast to much management literature, business historians have demonstrated the heterogeneity of firm strategies, organization, and impact, and shown the frequency and variety of network and other collaborative arrangements in the past. The business history literature provides a caution against easy generalizations, either positive or negative, about the role and impact of global firms. In providing empirical evidence on the complexity of historical outcomes, business history enables debates about globalization to be conducted at a more informed and nuanced level. It also challenges the academic discipline of international business to move beyond the comfort zone offered by datasets on contemporary US business to explore the complexities, ambiguities, and potential learning opportunities offered by the history of global business (Jones and Khanna 2006).

Business history literature has been particularly strong on the historical evolution of corporate strategies. It is now established broadly when, why, and how firms have crossed borders since the nineteenth century, even if many details remain to be discovered. However, many other aspects of the globalization of business require further research. There remains limited evidence on the extent to which globalization has permitted firms to change consumer habits and consumption preferences. The impact of the globalization of business on employment opportunities for women requires far more research. Nor has there been systematic research, leaving aside the specific instance of Nazi Germany, by business historians on the ethical practices of firms as they globalized. Given that corruption has become a major developmental
constraint for many developing countries, there is a need for empirical research on the historical role of multinational corporations in facilitating, or resisting, corrupt practices. Far more research is required also on the local entrepreneurial responses to foreign firms in different time periods and countries.

As the study of the business history of globalization intensifies, it will require shifts in methodologies and approaches. The new global business history needs a more clearly defined research agenda within global frameworks. Much of the research reviewed in this chapter has taken the nation state as the starting point. It has examined, for example, the investments of firms from one country into other countries, or the impact of national policy regimes on flows of multinational investment. A global perspective should move beyond such national frameworks to look more closely at the nature of the linkages between geographies, as already seen in the literature on business diaspora and on communication and transport networks. There needs to be more research on the global linkages between financial and business centers, and between regional business systems located in different countries. The history of the environmental impact of global business, as well as the emergence and nature of corporate environmental policies, has hardly begun to be written, yet over a century of plantations, logging, and construction have literally changed the face of the earth. Business historians have unique skills to investigate the nature of global knowledge creation and flows within corporations active in different geographies. The next stage of research on the business history of globalization looks set to be both very exciting and highly rewarding.

References


PART II

FORMS OF BUSINESS ORGANIZATION