The Eclectic Paradigm and the Gowth of UK Multinational Enterprise 1870-1983

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INTRODUCTION AND BACKGROUND

UK multinational activity, as we understand it today, started to evolve in the 1860s and 1870s, strongly influenced by the rapid growth of international trade, and the technological, organizational and institutional developments of the second half of the century. Yet, even at that time, UK enterprises were no strangers to overseas investment; indeed exports of portfolio, migratory, merchant and financial capital date back to the late 16th century [16, p. 28]. These early overseas interests were primarily directed towards a) the primary sector, i.e., mines, plantations, etc., b) services such as railways, utilities and banking; and c) trade and commerce. Although, in several cases, they involved some degree of managerial control, they could not be regarded as foreign direct investment in the sense that is accepted now. Foreign market-seeking and resource seeking productive activities by UK companies already producing in their home economy only began to emerge in the 1860s; while it was not until nearly a century later that multinational enterprises seeking to pursue a globalized market and production strategy came on the scene.

It is generally accepted that, prior to World War I, the UK was the world's leading outward direct investor. Estimates in Table 1 show that in 1914, the UK accounted for 45.5 percent ($6.5 billion) of the estimated stock of accumulated foreign direct investment by country of origin, well ahead of

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TABLE 1

ESTIMATED STOCK OF ACCUMULATED FOREIGN DIRECT INVESTMENT BY SELECTED COUNTRY OF ORIGIN 1914-1983

	1914[a]		1938[a]		1960[a]		1971[a]		1978[b]		1980[b]		1983[c]	
	$b	%	$b	%	$b	%	$b	%	$b	%	$b	%	$b	%
Total	14.3	100	26.4	100	66.7	100	172.1	100	392.8	100	511.5	100	591.5	100
Devel-oped	14.3	100	26.4	100	66.0	99.0	168.1	97.7	380.3	96.8	497.5	97.3	575.6	97.3
of which:														
UK	6.5	45.5	10.5	39.8	10.8	16.2	23.7	13.8	50.7	12.9	74.2	14.5	88.5	15.0
US	2.7	18.5	7.3	27.7	32.8	49.2	82.8	48.1	162.7	41.4	215.6	42.2	227.0	38.4
Canada	0.2	1.0	0.7	2.7	2.5	3.8	6.5	3.8	13.6	3.5	13.6	3.7	28.8	4.9
FDR	1.5	10.5	0.4	1.3	0.8	1.2	7.3	4.2	28.6	7.3	37.6	7.4	38.9	6.6
Japan	0.0	0.1	0.8	2.8	0.5	0.7	4.4	2.6	26.8	6.8	37.1	7.3	61.2	10.4

Sources: [a]Dunning [12] Tables 5.1 & 5.2. [b]Stopford and Dunning [29] Tables 1.2, 1.3 & 1.7. [c]Estimated by authors.

the US which was in second place with 18.5 percent ($2.652 billion). In 1938, the UK still retained its position as the leading foreign capital stakeholder, with 39.8 percent ($10.5 billion) of the total but the US was significantly closer with 27.7 percent ($7.3 billion). The UK was forced to sell out a large proportion of its overseas assets in World War II; since when, although there has been a continuous increase in the value of its overseas investments, its share of the world capital stake has steadily fallen.

The UK is also an important recipient of foreign direct investment. The first flurry of foreign multinational enterprise activity in the UK occurred in the 1880s, and in the following quarter of a century, US multinational enterprises such as Ford, Eastman Kodak, and Heinz established bridgeheads in most of the newer industrial sectors, including those in which the UK later built up a strong comparative advantage. By 1914, however, as Table 2 reveals, the UK still only accounted for 1.4 percent ($200 million) of the estimated world stock of accumulated inward foreign direct investment, and in 1938 its share was 2.9 percent ($700 million). Table 2 also shows that, among the largest inward investors since World War II, the UK has consistently ranked third behind the US, with a share remaining relatively constant between 8.1 percent (1971) and 10.2 percent (1980).

Taken together, these data show that the UK has been, and remains, a major net outward investor. Not as immediately apparent, is the extent to which the ratio of its outward to inward direct capital stake has declined since 1914. Table 3 shows that this ratio fell from 33:1 in 1914 to 15:1 in 1938; and then to 1.6:1 in 1978, since when it has increased again. This contrasts strongly with the experiences of US, Japan and Germany inter alia it reflects the changing entrepreneurial, innovatory, production, managerial and marketing advantages of UK firms relative to those of their overseas competitors, the role of the UK government in affecting these, and the general economic climate.

Historically, the structure of UK outward and inward direct investment has been very different from that of its major competitors. Inward investment has always been oriented towards the high- and medium-technology sectors; while outward investment has been concentrated in the relatively low technology and consumer good industries. The Reddaway Report [26] showed that, in 1964, 71 percent of the net foreign assets owned by the leading UK manufacturing multinational enterprises were in the less technology-intensive sectors of food, drink and tobacco, household products, paper, metal products, building materials and textiles, while 29 percent were in the more technology-intensive sectors of chemicals, engineering, electronics and vehicles. This contrasted strongly with the pattern of inward investment. In 1964, 67 percent of the net assets of foreign firms in UK manufacturing were in the more

TABLE 2

ESTIMATED STOCK OF ACCUMULATED FOREIGN DIRECT INVESTMENT BY SELECTED RECIPIENT COUNTRY 1914-1983

	1914[a]		1938[a]		1960[a]		1971[a]		1978[b]		1980[b]		1983[c]	
	$b	%	$b	%	$b	%	$b	%	$b	%	$b	%	$b	%
Total	14.1	100	24.3	100	54.5	100	166.3	100	361.7	100	440.9	100	540.5	100
Devel-oped	5.2	37.2	8.4	34.3	36.7	67.3	108.4	65.2	251.8	69.6	313.7	71.7	--	--
of which:														
UK	0.2	1.4	0.7	2.9	5.0	9.2	13.4	8.1	32.5	9.0	44.8	10.2	52.7	9.7
US	1.5	10.3	1.8	7.4	7.6	13.9	13.9	8.4	42.5	11.8	68.4	15.5	137.1	25.4
Canada	0.8	5.7	2.3	9.4	12.9	23.7	27.9	16.8	43.2	11.9	45.5	10.3	59.9	11.1
Germany	na	na	na	na	na	na	na	na	na	na	na	na	29.6	5.5
Japan	0.0	0.2	0.1	0.4	0.1	0.2	2.5	1.5	6.0	1.7	6.6	1.5	na	na

Sources: see Table 1.

TABLE 3

RATIO OF OUTWARD/INWARD DIRECT CAPITAL STAKE FOR SELECTED COUNTRIES 1914-1983

	1914	1938	1960	1971	1978	1980	1983
Developed	2.73:1	3.16:1	1.80:1	1.55:1	1.51:1	1.59:1	na
UK	32.50:1	15.00:1	2.16:1	1.76:1	1.56:1	1.66:1	1.68:1
US	1.83:1	4.06:1	4.32:1	5.96:1	3.83:1	3.15:1	1.66:1
Canada	0.19:1	0.30:1	0.19:1	0.23:1	0.32:1	0.30:1	0.52:1
Germany	na	na	na	na	na	na	1.31:1
Japan	0.57:1	7.50:1	5.00:1	1.76:1	4.47:1	5.62:1	na

Sources: Tables 1 and 2.

technology-intensive sector, and only 33 percent in less technology-intensive sectors.

The reasons why UK inward and outward direct investment has followed the pattern just described, are well documented in the literature [14, 30]. While the UK led the way in the Industrial Revolution and gained an early technological lead in a wide range of industries, it was the US which largely pioneered the second generation of industrial discoveries in the last quarter of the 19th century. New sources of energy, production techniques and organizational forms, and dramatic improvements in transport, communication and distribution facilities, helped create many of today's mass production industries, e.g., automobiles, office machinery, electrical goods, and synthetic chemicals, etc.; and the UK missed out on many of these developments. As a result, these sectors were heavily influenced by American, and to a lesser extent, German innovations and practices. When examining the industrial distribution of the 200 largest manufacturing firms in selected countries at the time of World War I, Chandler [4] found that 49.5 percent of the US firms were in the newer or mainly producer good industries compared with only 28.0 percent of the UK firms. The respective percentages for firms in the older or mainly consumer good industries were 50.0 percent and 70.5 percent.

This emerging industrial retardation left many gaps in the UK economy to be filled. As a consequence, it became the recipient of these new product and process innovations, initially by imports, but later, by inward direct investment. Although this paper is primarily concerned with the activities of UK multinational enterprises, the role of inward investment must be acknowledged, as it had a significant influence on the organization and pattern of resource allocation in the U.K. In some cases, the presence of foreign firms introduced new market structures [10], and provided a much needed competitive stimulus; in the inter-war years, for example, a good deal of rationalization occurred in sectors such as motor vehicles and electrical equipment in which foreign firms were especially well represented. The analysis of Chandler [4] also suggests that the UK subsidiaries of US parents were the first, in the UK, to adopt new organizational structures (e.g., the M-form) and management techniques, which helped facilitate diversification and international growth. Overall, the balance of evidence suggests that inward direct investment has consistently steered the UK's economic structure towards the technologically more advanced, and internationally oriented sectors [10].

The rest of this paper concentrates on UK outward investment, examining, within the framework of the eclectic paradigm of international production, the emergence and development of UK manufacturing multinational enterprises since 1870; and the changing nature and interaction between the competitive advantages of firms, the comparative advantages of countries and the organizational form of cross border transactions. The data for the paper have been obtained from company archives, business records, industrial histories and published documents of some 187 British industrial multinational enterprises, which, in 1983, accounted for about four-fifths of all outward UK direct investment in manufacturing history. In addition, questionnaires were completed and/or interviews conducted with a sample of these companies. A fuller account of the results of the study is set out in Archer [1].

THE ECLECTIC PARADIGM AND THE NEED FOR A GENERAL EXPLANATION FOR THE HISTORICAL EXAMINATION OF UK MULTINATIONAL ENTERPRISES.

The examination of the emergence and development of UK multinational enterprises over the last century is a vast subject to study. Not only has the underlying international economic, political and technological environment changed significantly over time, but also very different motives prompt firms to undertake market-seeing (import substituting), resource-seeking (supply orientated) and efficiency seeking (rationalized) foreign direct investment. Moreover, it is not only the determinants of foreign direct investment by large multinational enterprises such as ICI and Unilever that has to be explained, but also those of the many smaller specialized companies such as Hallite and Vinten.

The framework required to study the history of UK multinational enterprises must therefore be of a widespread, general and integrated nature. This is precisely the advantage claimed by Dunning [11; 12; 13] for the eclectic paradigm of international production. According to this paradigm there are three conditions that must be satisfied if a firm is to engage in foreign direct investment. These are:

1. It must possess net competitive or ownership specific (O) advantages vis-a-vis firms of other nationalities in serving particular markets. These ownership advantages may take two forms (a) the exclusive or privileged access to specific intangible assets, e.g., technology, management skills, markets, and (b) the ability to govern, i.e., coordinate, the use of these and other assets, particularly where the enterprise is multi-activity and geographically dispersed.

2. Assuming condition (1) is satisfied, it must be more beneficial to the enterprise possessing these advantages to use them itself rather than to sell or lease them or their rights to foreign firms, that is, for it to internalize the markets for its advantages, through an extension of its activities, rather than exter-

nalize the sale of them or their rights to independent foreign firms.

3. Assuming conditions (1) and (2) are satisfied, it must be profitable for the enterprise to utilize these advantages in conjunction with at least some factor inputs (including natural resources) outside its home country; otherwise, foreign markets would be served entirely by exports and domestic markets by domestic production.

Two points must be noted immediately. Firstly, the three conditions are intimately related: for example, Dunning [13] distinguished between the asset (O_a) and transaction (O_t) ownership advantages of multinational enterprises and observed that while the former arise from the favored possession of individual assets by multinational enterprises vis-a-vis other enterprises, the latter

> mirror the capacity of multinational enterprise [multinational enterprise] hierarchies, vis-a-vis external markets, to recoup the transactional benefits (or lessen the transactional costs) of the common ownership of separate but interrelated activities located in different countries. [13, p. 13]

The second point to be noted is that the OLI variables are not static and may change over time. The fact that a UK company might have had strong O advantage pre-1914 does not necessarily mean that its competitive position was as strong in subsequent periods; and, if it was, this may have been due to different combination of asset (O_a) and transactional (O_t) advantages than those possessed in the earlier period. Similarly, in many industries, as knowledge has become more idiosyncratic, tacit and noncodifiable, the market has proved an increasingly inappropriate modality for the organization of cross-border transactions [32]. Finally, the merits of particular countries as locations for productive activities are constantly shifting as the value and importance of such variables as wage rates, material prices, market size, tariffs, transport costs and government policies and attitudes towards foreign direct investment change.

Although several criticisms have been leveled against the eclectic paradigm of international production [13], it is our belief that this approach offers a robust and powerful framework for analyzing and explaining the international transactions of firms and the international economic involvement of countries. The purpose of the remainder of this paper is to identify and evaluate the specific OLI variables which have affected the different types of foreign direct investment by UK multinational enterprises, and to examine how these variables have changed over time.

OWNERSHIP-SPECIFIC ADVANTAGES OF UK MULTINATIONAL ENTERPRISES 1870-1983

In examining these advantages, a distinction must be made between firm-specific, industry-specific and country-specific factors. Firm-specific factors relate to O advantages that enable firms to compete successfully with other firms within their own industry both in the UK and in foreign markets: these include both structural and strategic related advantages. Industry-specific factors relate to O advantages that may accrue to all firms within a given industry, and include those concerned with market structure and the economics of production. Country-specific factors relate to O advantages that may accrue to all firms of one nationality over those of other nationalities. These advantages may be generated by the size of a country's market, its level of income, its resource endowments, its educational system, its government's policy towards R&D, patent and trade mark legislation, and so on. Countries are not homogeneous in their factor endowments; in consequence, firms originating from different countries are likely to possess different O advantages. In the context of this paper, at least some of the competitive advantages of UK multinational enterprises may be expected to reflect the country-specific factors of the UK that generated and sustained them.

This paper identifies 15 major UK multinational enterprises which had emerged by 1914,[1] although it must be acknowledged that they were by no means the only UK overseas investors of the period. Consistent with our primary concern, 14 of the 15 were manufacturing companies (the exception being Royal Dutch Shell). To a large extent, their foreign activities mirrored the comparative trading advantages of the UK, which, in 1914, was most pronounced in the products that it had pioneered 50 years earlier. UK multinational manufacturing activity was then oriented towards the production of branded consumer goods and heavy engineering equipment, rather than towards products generated by the technological developments of the 1870s, e.g., automobiles, chemicals and electrical machinery. The reasons for this have been widely discussed by economic historians; basically, while the UK provided a large, standardized, high-income market which encouraged

[1]These pioneering UK multinational enterprises were: BAT, Babcock & Wilcox, Bryant and May, J&P Coats, Courtaulds, Dunlop, English Sewing Cotton, Gramophone, Lever Brothers, Nobel Explosives, Pilkington Brothers, Reckitt & Sons, Royal Dutch Shell, Vickers and Wellcome.

the development and marketing of consumer goods, it failed to encourage the development of new technologies.[2]

All the major UK multinational enterprises that emerged pre 1914 held strong oligopolistic positions in their domestic markets, with the majority being among the largest and older established UK companies. An examination of their advantages reveals access, not only innovatory strength (e.g., Babcock, Gramophone, Pilkington and Dunlop), but also the ability to supply differentiated and high quality products, and the control of selling outlets (e.g., Imperial (in tobacco), Bryant and May (in matches), Lever Bros. (in soap and margarine), and Reckitt (in household products)). Moreover, several of the UK multinational enterprises, whose competitiveness was based on the more recently developed products and/or processes, relied heavily on technology and knowledge acquired from overseas (usually US) sources (e.g., Babcock (industrial machinery) Gramophone (records), Nobel explosives (chemicals) and Wellcome (pharmaceuticals)).

Several of the early UK multinational enterprises were members of international cartels or market-sharing agreements (examples included BAT, Babcocks, Bryant and May, Gramaphone and Nobel). These agreements were important in that they both allowed the participants favored access to certain markets; and also protected them from competition from other firms. The UK companies were generally allocated the Empire markets. A further advantage of some UK manufacturing multinational enterprises was their privileged access to essential inputs. A guaranteed and constant supply of raw materials at a reasonable and steady price was seen as being fundamental to future development and growth in the case of such firms as Dunlop, Imperial, Lever, Cadbury's and Reckitts. Ownership of their primary inputs was no less important to the strength of such UK resource-based multinational enterprises such as RTZ and Shell.

Perhaps the most outstanding feature to emerge from the examination of the O advantages of these major pioneering UK multinational enterprises, however, was the importance of individual entrepreneurship in their overseas (and domestic) growth. Foreign direct investment was a new and risky phenomenon, and men such as William Lever (Lever), Henry Tetley (Courtaulds), T. R. Ferens (Reckitt), Marcus Samuel and Henri Deterding (Shell), and Henry Wellcome (Wellcome) were fundamental in controlling or influencing the pattern of their companies' growth. In fact, it is possible to identify such entrepreneurs for all 15 companies; by contrast, Corley [7] has suggested that

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[2]The reasons for the UKs emerging industrial retardation has been the subject of great debate in numerous books and papers, e.g., Hobsbawm (1968). There is insufficient scope to go into all the suggested reasons in this paper.

Huntley and Palmer experienced poor entrepreneurship and lost out in several overseas markets through lack of foresight.[3]

Examination of the competitive advantages of UK multinational enterprises during the inter-war years and early post-World War II period yields very similar results to that of the pre-1914 era, although the underlying economic and political environment in which foreign direct investment was undertaken changed significantly between 1919 and the 1960s.[4] UK manufacturing multinational activity remained oriented towards the mature, relatively low-technology sectors and the O advantages of UK multinational enterprises were predominantly of an O_a nature.[5]

The continuing domination of UK foreign direct investment by companies from the mature, relatively low-technology industries again mainly reflected the particular characteristics of the UK economy. These included a host of institutional barriers to industrial restructuring, and an inability of the UK economic machine to redirect resources to the growth-oriented sectors. The high income, large and standardized UK market continued to foster large firms, product differentiation and marketing skills--all characteristics favoring the consumer goods multinational enterprises which emerged both

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[3]In his history of Bryant and May, Lucas [21] stated that, a major affect of the 1901 amalgamation was the managerial association of Gilbert Bartholomew and George W. Paton as together they became the architects of the rapid growth of the company and its widening outlook. Corley [8] referred to the poor entrepreneurship of the company prior to amalgamation. Wellcome's failure to continue its multinational growth after World War I can be largely attributed to Henry Wellcome's loss of much of his former commercial drive (Courtenay History pp. 29-30).

[4]The inter-war years saw the collapse of international capital markets in the late 1920s and the early 1930s, were characterized by political instability, depressed and fragmented markets, etc. and where characterized by industrial concentration, rationalization and cartelization. During 1945-60, the international and economic and political environment became increasingly favorable for foreign direct investment as countries recovered from the effects of war. A 1984 OECD report referred to the first 20 years of the post war period as the "golden age of stability and growth."

[5]Among the new major UK multinational enterprises to emerge were (a) 1915-39: Aspro, BBA, BOC, Baker Perkins, Cadbury, Coates Bros., Columbia (EMI) Distillers, Glaxo, GKN, G. Kent, Metal Box, Rowntree, Turner & Newall (and commodity-based: APOC, Brooke Bond, Tate & Lyle), (b) 1940-59: APU, Acrow, BICC, BPB, Beecham, Bowater, Brideon, Brockhouse, Chubb Clarks, A. Cohen, Creda, Delta Metal, Dexicon-Comino, Foseco, Hawker-Siddley, Johnson Matthey, Lucas, Marley, McKechinie Brothers, Plessey, Ransome Marles & Co., Simon Engineering, Smith & Nephew, Thorn, Tube Investments.

during the inter-war years, e.g., Cadbury and Rowntree (confectionary), Distillers (drink); and in the early post-World War II period, Beechams (pharmaceuticals), Chubb (locks and keys) and Clarks (boots and shoes).

By contrast, the UK continued to be generally uncompetitive in the technologically advanced and vertically integrated engineering and chemical industries. Several reasons have been adduced for this. For example, Murphy [22] stated that, in the 1900s, at the more advanced educational levels, technical and scientific instruction and inquiry remained "poor cousins in the family of higher learning" in the UK. A similar point was made by Ashworth [2], who also referred to "the lack of provision for commercial studies and for any kind of technical education for managers and senior industrial staff." In comparing the growth of multinational enterprises in the US and UK until 1939, Chandler [4] noted that, whereas in the US the need for trained production and marketing specialists in the technologically advanced machinery, electrical and chemical sectors had been quickly recognized and catered for by universities and business schools; this was not the case in the UK, where top managers continued to come from the owning family and middle managers from the company's ranks. It was in the newer, higher technology industries that the need for organizational and financial control systems and management techniques was the greatest; and the UK's failure to adapt to this need contributed greatly to the lack of competitiveness of UK companies in the newer, high-technology industries. It was not until 1947 that the British Institute of Management was formed, and, only in the 1960s, that the London and Manchester Business Schools were founded.

It is true that, during the inter-war years, the traditional industries declined and the newer sectors expanded in the UK, but generally, the latter proved ineffective in international markets. Too often, UK companies failed to invest in the kind of innovatory activities which were the foundation of the success of their international competitors. Indeed, even after 1945, the preference of UK firms for reinvesting in old industries and the continued commitments to traditional and safe markets, continued to persist. Products designed for home consumption found ready markets in the Commonwealth, and as long as these were growing and profitable, there was little incentive to change or invest heavily in new technology and production processes.

The examination of the competitive advantages of UK multinational enterprises between 1919 and 1960, therefore, yields very similar results to those for the pre-1914 era, but several points need to be highlighted. Given the industrial structure of UK international production, and the fact that most companies were in the later stages of their product cycles, the importance of product differentiation and quality, together with marketing and managerial skills and experience, as competitive advantages, is only to be expected. The success of such UK multinational enterprises as Beecham, Cadbury, Clarks, Chubb, Distillers, etc. are ample testimony to this. Moreover, the major UK multinational enterprises tended to hold a strong position in their domestic market and to have been established for a long time. Technological strength, including the ability to offer after sales and maintenance service, was clearly an important factor for most of them; and several UK multinational enterprises--particularly those in the higher technology industries--still relied greatly on help from the US, e.g., Coates Bros., Metal Box, Plessey and Thorn. Technological strength in niche markets was also an important source of competitive advantage to many of the relatively small, specialized UK multinational enterprises that emerged after World War II: examples include APV, Acros, Brockhouse, A. Cohen, Creda, and McKechinie Bros.

We have already noted that a Commonwealth preference for UK foreign direct investment emerged during the inter-war years and peaked during the immediate post-World War II period. This was not only due to the fact that UK multinational enterprises were generally more competitive than indigenous firms in these regions, but also to the more favorable access that many of them enjoyed through a combination of (i) psychic proximity and indirect enforcement, and (ii) international producers in which such companies such as EMI, ICI, and Metal Box, etc., were actively involved.

The general absence of managerial hierarchies among UK companies during the inter-war period--even by 1950 only a small proportion of UK companies investigated by Channon [5] had established a multidivisional structure--meant that there remained scope for the owner-entrepreneur to play a dominant role in the internationalization of production. The importance of such entrepreneurs before 1914 was stressed earlier in this section; but the vast majority of leading UK multinational enterprises which emerged during the inter-war and immediate post-war periods were also dominated by individuals with similar drive and vision. Examples include Maurice Coates (of Coates Bros.), Louis Stirling (of Columbia, EMI), Sir H. Sephcott (of Glaxo), Sir R. Barlow (of Metal Box), Lord McFadzean (of BICC), H. G. Lazell (of Beecham), Eric Bowater (of Bowater), Sir O. Aisker (of Marley), and Sir J. Thorn (of Thorn).

The risk aversion strategy of UK firms in continuing to invest in sectors in which they had achieved success in the past, rather than in the industries of the future, a protected home market, and a preferential access to Commonwealth markets during the 1940s and 1950s, meant that the UK was slow in adjusting to new conditions and opportunities. Even in the 1980s, British outward investment remains "heavily skewed" towards the mature, relatively low-technology industries, e.g., food, drink, tobacco, household products, textiles, paper and building materials. Consistent with this fact, of our sample of 187 UK multinational enterprises which have been significant overseas investors since 1960, 97 had origins going back to the 19th century (or earlier) and at least 150 had been established by 1930. Even over half of the increasing number of relatively small, specialized UK multinational enterprises had origins going back to before World War I. Clearly, then, prior to venturing abroad, the vast majority of UK multinational enterprises held established strong positions in their domestic markets, and were very experienced in their respective fields. This, of course, may have contributed to the complacency and lack of "controlled commercial aggression" among UK multinational enterprises abroad, observed by Stopford and Turner [30].

The asset advantages (O_a) of the 187 UK multinational enterprises investigated in the early 1980s [1] are summarized in Table 4.[6] It must be stressed that, as in previous periods, the competitive strength of UK multinational enterprises was generally the result of a combination of factors which varied from market to market. In addition to the O_a advantages identified in the table, a number of companies such as BP, ICI, Imperial, RMC, Shell and Unilever, emphasized the advantages that directly resulted from their size and diversification, e.g., the ability to gain inputs on favorable terms, generate scale economies, etc. It is not absolute size, but relative size vis-a-vis the major competitors that is the often crucial factor and it is generally considered that too many of the major UK multinational enterprises are small in this respect.

Table 4 shows that approximately three-quarters of the companies perceived that "superior technology" was a crucial factor in their international competitiveness; the exceptions being resource-based companies and several companies in industries where technology was mature or played a minor role, e.g., Allied-Lyons (bread and bakery products), BAT, Rothmans (cigarettes and tobacco), Distillers (drink), Tarmac (road surfacing materials). Obviously, technological strength was considered to be most important by the UK multinational enterprises in the more dynamic and research intensive industries, e.g., electronic companies such as GEC and Plessey, but a wide range of companies in other industries regarded it as central to their competitiveness; Clarks (boots and shoes) and Whitbread (drink) are examples. R&D activities were regarded as crucial to many companies not just in the development of products and processes, but also in modernizing existing technology, adapting it for different purposes, and customizing products and processes to specific local requirements. Technological strength in niche markets was perceived to

[6]These results obtained from a questionnaire survey must be treated with a certain amount of caution as (i) they are determined largely by how the companies perceived their own sources of strength; and (ii) many of the factors included are interdependent, and (iii) companies, on occasion, referred only to the most important ones, regarding the others as implicit, e.g., superior technology, marketing skills, etc., are relevant on R&D activity, service and quality are central to the strength of brand/company names, etc.

the most important intangible asset by the majority of the small, specialized UK multinational enterprises, e.g., Allied Alloids, Bowthorpe, British Vita, Tace, Unitech and Vinten.

TABLE 4
MAJOR ASSET OWNERSHIP ADVANTAGS OF 18 SIGNIFICANT UK MULTINATIONAL ENTERPRISES
1960-1983

Source of Advantage	%
Superior Technology	73.2
Managerial capacity and skill	70.1
Brand names, trademarks	61.0
Marketing skills	49.2
Research and Development	43.9
Reputation for quality	19.8
Service provided	14.4
Ownership of Raw Materials	8.0

Source: [1, p. 442].

Data obtained by interview or by questionnaire completed by the chief executive officer, or company secretary of the company in question.

The importance of brand names or trademarks and marketing skills among the O_a advantages of UK multinational enterprises is again consistent with the industrial orientation of UK outward direct investment and the fact that most UK multinational enterprises were supplying products at a later stage of their product cycles. These intangible assets, for example, were perceived as being particularly important by consumer good companies such as Allied-Lyons, Beecham, Bass, DRG, Guinness, Rank Xerox, Cadbury, Schweppes, Imperial Tobacco and Unilever.

Although Stopford and Turner [30] have criticized the general managerial performance of the UK multinational enterprises, 70 percent of those in our sample considered that managerial capacity, skills and experience was an integral part of their competitive strength. Stopford and Turner suggest, however, that the relatively stronger performance of the smaller, specialized UK multinational enterprises was largely the result of superior managerial capabilities, and our findings certainly support this contention. In addition, it would seem that entrepreneurs with international vision and drive generally played a greater role in the international expansion of the smaller specialized

UK multinational enterprises than of the larger ones during 1960-84.[7] However, in spite of the fact that, during this period, the large UK multinational enterprises adopted new organizational forms [5], entrepreneurs still played a crucial role in the domestic and multinational development of several of them, e.g., Allied-Lyons, Beecham, Blue Circle, Pilkington, Redland and Thorn.

At the beginning of this section, it was stated that, during the 1970s and 1980s, several UK multinational enterprises became increasingly aware of a whole set of transaction cost reducing advantages (O_t) arising from their geographical diversification. Among those identified from our reading of company histories and documents are the ability to (i) offer customers the security of multiple sources of supply--as exampled by Automotive, De La Rue, Lucas; (ii) keep more fully abreast of the major international developments in their industries, e.g., Beecham, De La Rue, Vinten; (iii) circumvent institutional constraints, e.g., tax codes, antitrust provisions, financial limitations, etc.; (iv) exploit imperfections in the capital exchange rate markets; (v) engage more effectively in competitive strategies such as cross-subsidization and predatory pricing (e.g., vis-a-vis uninational competitors); and (vi) enjoy greater strength and stability through the geographical spread of assets, e.g., by being in a better position to withstand cyclical profits, economic downturns, exchange rate volatility and political pressures of individual governments, e.g., Babcock, Beecham, Blue Circle, Foseco, ICI, Lonrho, Pilkington, Reckitt and Coleman, Unilever.

However, although reference to Doz [9] and Kogut [18; 19; 20] highlights these and other advantages which arise from the linking and specialization of production and markets across national frontiers, the number of UK companies actually pursuing such strategies in the 1970s remained small. In part, this may be because most of the products supplied by UK foreign subsidiaries are for local markets. There are suggestions, however, that over the last decade, there has been an increasing amount of intra-firm trade taking place within UK multinational enterprises, which implies the practice of some product and process specialization. Examples of such companies engaging in such trade include Courtaulds, Glaxo, GKN, ICI, Lucas, Plessey, Pilkington, Racal and Unilever.

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[7]It appears that during 1960-84 an individual--or a small group of individuals--played a dominant role in the multinational expansion of two-thirds of the smaller, specialized UK multinational enterprises. The corresponding ration for the large UK multinational enterprises was between one-quarter and one-third.

INTERNALIZATION INCENTIVE ADVANTAGES OF UK MULTINATIONAL ENTERPRISES, 1870-1983

The first condition of the eclectic paradigm determines how firms are able to compete with indigenous companies (and other foreign companies) in foreign markets, but it does not explain *why* firms which possess O advantages choose to exploit themselves in these markets rather than to sell or lease them to indigenous firms. If a firm is to engage in foreign direct investment, therefore, a second condition must be satisfied, i.e., it must be more beneficial to the firm possessing O advantages to use them through an extension of its own value adding activities rather than externalize them through licensing and similar contracts with independent firms. The fact that multinational enterprises prefer to internalize markets for their O advantages immediately implies that market failure exists; otherwise, firms would be able to earn the full economic rent on these advantages by selling or licensing them to independent buyers. Similarly, under perfect market conditions, there would be no incentive to integrate backwards or forwards. Internalization theory, therefore, concerns itself with the conditions under which firms seek to replace external markets with administered decision taking. In this connection, economists have distinguished between *structural* market imperfections (which affect O_a and L advantages) and *transactional* market imperfections (which affect O_t, L and I advantages). The desire to internalize markets arises because of the presence of the latter type of imperfections; thus the greater the perception of transactional market failure by firms, the more they are likely to exploit their O advantages through international production than through licensing and other contractual arrangements with indigenous firms.

The literature usually identifies three main kinds of transactional market failure: (i) those which arise from risk and uncertainty; (ii) those associated with the presence of plant economies of scale and imperfect product markets; and (iii) those which occur wherever individual transactions create costs and/or benefits external to those transactions but internal to the enterprise undertaking them. Although the reasons given by firms for internalizing their operations in an overseas market may be expressed rather differently, e.g., to safeguard supplies of inputs, to protect product quality and guarantee markets, to lessen the risk of the dissipation of proprietary rights through patent infringement, etc.--the desire to vertically integrate production, or to engage in horizontal or lateral foreign direct investment stems from the presence or one or other of the above three forms of transactional market failure. Although this paper is primarily concerned with UK manufacturing multinational enterprises, UK multinational activity was initially strongly oriented towards the primary product sector (especially in developing countries). For example, in 1960 about 35 percent of the UK and US accumulated investment was in manufacturing, compared with about 25 percent in 1938 and 25 percent in 1914 [12]. Vernon [33] stresses the importance to resource-based companies, such as BP and Shell, of being fully integrated, noting that unintegrated companies were particularly vulnerable to sudden price increases and/or supply interruptions. This can be seen as the rationale behind the numerous resource-seeking overseas investments made by BP, Shell, Burmah, RTZ, and Charter Consolidated, over the last century. At the same time, the increasing imperfection of primary product markets in the nineteenth and early twentieth centuries prompted several UK manufacturing companies to internalize the markets for their required resources through investing in foreign facilities, e.g., Dunlop in Malaysian rubber plantations, Lever in palm oil plantations in the Solomon Isles, Belgian Congo and Nigeria; Turner and Newall in asbestos mines in Rhodesia and South Africa, etc. The decline of supply-oriented foreign direct investment by UK multinational enterprises in the later 20th century can be seen as a combination of the growing efficiency of commodity and future markets, and--more significantly--the increasing hostile stance taken by host governments in the resource-rich developing countries to the foreign ownership and exploitation of their strategic resources.

A notable feature of UK multinational activity throughout the past century has been the internalization of downstream production and marketing and distributing operations, in overseas markets. Nicholas [23, 24], for example, has argued that the importance of vertical selling of UK multinational enterprises before 1939 reflected their bias towards selling consumer goods in high per capita markets. Moreover, in large part, they were able to set up successful selling networks abroad due to the advantages of a differentiated product and the marketing expertise developed in the home market. By contrast, overseas selling agencies found it more difficult to commit, or even acquire, the resources and motivation necessary to successfully develop the UK company's product in the local market; or to have the capability and incentive to provide the necessary quality of after sales service and maintenance.

Through replacing these agents by their own selling outlets, the companies were able to gain total control over their distribution outlets and could employ the expertise that they had developed in the UK and other foreign markets. Governance over marketing activities was important in all periods covered by this paper not only for consumer goods companies, but also, for producer good firms, which typically incur large sunk costs, and need to ensure and stabilize the demand for their products. In their analysis of global competition, Stopford and Turner [29] stress the value of having "greater control of access to the market place," and observed that "selling a good product in a distributional vacuum is a recipe for disaster." It is then not surprising that there are numerous examples of UK companies which internalize the markets for their foreign sales activities, and, significantly, during the 1960-84 period, to capture the benefits of regional integration or free trade areas. The justification given in Annual Reports for strengthening investments in the EEC in the 1970s was usually expressed by the companies in terms of "controlling," "strengthening," "coordinating," "reinforcing," "consolidating," and "increasing the penetration of" their European operations.

In the case of manufacturing overseas investments made before World War II, data relating to the reasons why UK multinational enterprises chose to internalize the markets for their O advantages is difficult to find. The majority of relevant company histories and archive material fail to mention the contractual, e.g., licensing, option; and give the impression that when exporting from the home country became difficult or impossible, foreign direct investment was the only alternative route of servicing the market considered by the company. Stopford and Turner [30] assert that few UK companies seem to have chosen the licensing option during this period, due, perhaps, to the lack of enforceable patent legislation, or to difficulties of monitoring the licensee's business.

Such scattered evidence as does exist, suggests that several UK companies were concerned lest a licensee might become a future competitor, e.g., Glaxo's problems with Bachus Marsh in Australia around 1914; or of being unable to maintain proper quality control, e.g., Dunlop's experiences in France and Germany. foreign direct investment was also undertaken where patent disputes and difficulties arose, e.g., in the case of Albright and Wilson in Canada (1901) and Courtaulds in Germany (1925). Since, too, several of the markets in which the British companies invested were in their early stages of development, many companies were keen to establish total control over their operations from the start, and avoid the drawbacks of licensing and other contractual arrangements.

There were other features that influenced the decision of UK multinational enterprises to engage in foreign direct investment rather than to license foreign firms. First, in several cases--notably those involving the production of high quality consumer goods--there did not exist a licensee with the necessary capabilities, and who was sufficiently trustworthy to manufacture (and service) the product to the licensor's satisfaction. Second, UK--like other multinational--enterprisesin some high technology sectors found it appropriate to use the market for the transfer of knowledge, e.g., when it was noncodifiable, idiosyncratic or tacit. Third, it was often relatively easy and inexpensive to set up overseas operations, e.g., as in the case of Gramophone's local record pressing plants. Fourth, foreign direct investment enabled UK companies to take advantage of incentives offered for indigenous manufacture by local governments, e.g., Lever in South Africa (1910). Fifth, the ownership of foreign subsidiaries afforded UK companies more freedom to react to the strategies, or anticipated strategies, of their major competitors, than would have been possible with licensing agreements.

With respect to this last point, it is abundantly clear that, in their foreign direct investment decisions, many UK companies before World War II were influenced by the actions or anticipated actions of their major international competitors. This was particularly so during the inter-war years which were characterized by a growth in industrial concentration, rationalization and cartelization: indeed Jones [17] has stated that, during the 1920s, the operating decisions of most large UK multinational enterprises were taken against a background of intense international oligopolistic rivalry. Major examples of foreign direct investment by UK multinational enterprises that responded to the oligopolistic pressures and strategies included Shell's actual (1911) and Imperial Tobacco's threatened (1901) investments in the US; Pilkington's investments in France (1892), Canada (1913) and a threatened one in Belgium (1928); Courtauld's investments in France (1925), Germany (1925) and Italy (1927) etc. Other UK companies behaving in a similar fashion were APOC, Bowater, Cadbury, Dunlop, George Kent and Rowntree. For example, in spite of making losses of £750,000 during 1909-24, Dunlop's French subsidiary was kept going to combat the competition from Michelin.

Since, as the previous section noted, the predominant source of competitive strength for UK multinational enterprises until the 1970s was their privileged possession of, or access to, intangible assets, the motivation for these companies to internalize the foreign market for these advantages in the immediate post-World War II period was essentially the same as that which existed before 1939. UK companies remained keen to exploit their most important markets on a permanent basis, with full control over their operations, when exporting became difficult or no longer practicable. These companies perceived that foreign direct investment would better enable them to appropriate the economic rent on their technological, marketing and managerial capabilities, and more effectively protect their proprietary rights and product quality.

Taking account of the dominant Commonwealth preference for UK foreign direct investment which existed until the early 1960s, the attitude of many UK companies towards foreign direct investment, in preference to licensing, was typified by McKechinie Brothers who stated:

> With a licensing agreement one only has a certain percentage of turnover or profits or other criteria as a return to the company and in certain circumstances this may be considered adequate. However, when you are in a position to enter into a market in its infancy as McKechinie were undoubtedly in the mid 1940s in South Africa and in the mid-1950s in New Zealand, then it is clearly better to establish a manufacturing operation under your total and complete control ... you are in a position to control your manufacturing operation, the sale of your product and to obtain the full benefit of your investment by retaining all the post taxation profit."

A further relevant point was made by Delta who, in stating why foreign direct investment was preferred to licensing in Australia, South Africa, Rhodesia, and Kenya during the 1950s remarked that it was

> because the territories concerned were in the early stages of industrial development so that there was no indigenous industry for which licensing agreements might be considered.

Even where licensees did exist, records and companies such as BICC, Bridon, and Hawker-Siddley suggest a reluctance to enter into agreements for fear of creating or assisting a potential competitor. In view of the increasing desire of UK companies during the 1950s and 1960s to diversify their foreign portfolios, the acquisition of overseas companies was often seen as a quick and efficient way of achieving this objective. It appears, however, that, during the 1940s and 1950s, UK companies were not generally influenced by the behavior of their competitors' foreign investment decisions; exceptions include Pilkingtons, Unilever, BP and Shell Oil. Too few UK companies had the resources or competitive strength to engage in widespread foreign direct investment as part of an international oligopolistic strategy; for most, the Commonwealth continued to be their main outlet for manufacturing.

For the UK multinational enterprises that neither engaged in rationalized production and investment, nor sought to benefit from transaction cost advantages, the incentives to internalize markets that existing during the intermediate post-war period remained no less relevant in the 1970s and early 1980s. The analysis of Stopford and Turner [30], for example, suggests that, to be successful in an environment of global competition, UK companies must both exploit the full economic rent from their individual O_a advantages and efficiently coordinate these advantages. Numerous companies have recognized this fact and perceived foreign direct investment as the best way to achieve this aim, given the inadequacies of using the market to transfer and control resources. Additionally, foreign direct investment, by way of acquisition, has been increasingly preferred to greenfield ventures as a means of gaining access to markets; or as part of a wider diversification strategy. Imperfections in Anglo-US capital and exchange markets also resulted in a flood of UK takeovers of US firms in the late 70s and early 80s. Although very few UK companies appear to have been in a position to engage in oligopolistic strategies on a global scale during the 1970s and early 1980s, in certain important markets, at least, several companies were influenced in establishing local subsidiaries by the actions of their major competitors. "Exchange of threats" and "follow the leader" considerations, for example, figure frequently in the Chairman's reports of BP, ICI, Unilever, Redland, Allied Colloids, and Tace, over this period.

Since 1970, some rationalized (efficiency-seeking) investment has been undertaken by UK multinational enterprises; and, with it, as revealed by an increasing amount of intra-firm trade between parent companies and subsidiaries, a growing degree of product and process specialization. The motivation for such integration has been threefold; first, to secure a presence in the major growth markets of the World and thus be better able to maintain an international competitive stance; second, to take advantage of differences in international factor endowments and costs; and third, to capture the gains from the economies of specialization and integration. In addition, as the previous section observed, there is some reason to suppose that UK multinational enterprises are becoming increasingly apprised of the gains that can accrue them through multinationality per se. Awareness of these advantages and the desire to fully exploit them has, therefore, provided an important added incentive in the foreign direct investment strategy of UK multinational enterprises such as Beecham, ICI, Pilkington and Unilever.

LOCATION-SPECIFIC DETERMINANTS OF UK MULTINATIONAL ENTERPRISES 1870-1983

Location (L) factor are relevant to the theory of the multinational enterprise both insofar as they influence the "where" of value added activities, and also as they interact with O and I factors to generate advantages (and costs) for multinational enterprises, that arise specifically from the geographical diversification of their activities.

The first way in which location factors enter the eclectic paradigm relates to structural market distortions (which may be "natural," e.g., transport costs, or "artificial," e.g., import quotas, export subsidies). By their affect on production costs and revenues in different locations, they may encourage or discourage foreign direct investment [15]. The second way relates to transactional and market failure, for even in the absence of structural market distortions, multinational enterprise activity might still occur wherever there are benefits, e.g., operational flexibility, likely to result from the common ownership of activities sited in different locations.

The locational parameters influencing the investment decisions by UK multinational enterprises have changed markedly over the last 100 years as a result, *inter alia*, of technological advances, economic development and shifts in home and host country Government policies. To give one or two examples: labor and many material costs are now generally a much less important ingredient of manufacturing costs than they used to be; intra-firm communication costs have dramatically fallen; technology related variables have become increasingly decisive; within the industrialized world, at least, there has been a convergence of the structure of factor endowments, and consumer spending patterns; and Governments have become highly sensitive to inward investment in key strategic sectors.

In the case of resource-seeking multinational enterprises, the presence of the required resources was, and still is, the main "pull" factor making for a foreign location; other variables identified by UK multinational enterprises include exploration and extraction costs, land rents, transport costs, and host governments' attitudes towards the foreign ownership of natural resources. This latter variable, for example, explains why Lever developed plantations in the Belgian Congo rather than the Gold Coast pre 1914; why Booker McConnell was forced to divest its sugar plantations in Guyana in the 1970s; and why very little resource-seeking foreign direct investment has been undertaken by UK multinational enterprises since 1960. Numerous developing and newly-industrialized countries gained independence during the 1960s and 1970s;[8] during which years an increasingly hostile stance was taken by their governments to the foreign ownership and exploitations of their natural resources.

Although several UK manufacturing multinational enterprises undertook foreign direct investment in the 1950s (e.g., Courtaulds, Unilever and Wellcome) and the 1960s (e.g., Babcock and Guinness) as part of diversification policies aimed at improving their overall competitiveness; until the 1970s, UK manufacturing foreign direct investment remained almost entirely of an import-substitution kind rather than an efficiency-seeking one; and the locational determinants were primarily those associated with the production and transfer costs of a limited range of activities.[9] However, these locational determinants changed significantly over time, strongly influencing the distinctive location patterns that UK foreign direct investment has followed since 1870.

Prior to World War I, UK manufacturing multinational enterprises displayed a preference for high-income markets, with a slight Empire bias due to political and other psychic ties. Some companies, e.g., Babcock, Bryant and May, Gramophone and Nobel entered into international market-sharing agreements which allocated the Empire and/or European markets to them. It was the high-income markets which offered the best prospects for the kind of

[8]These included: Nigeria (1960), Tanzania (1961), Jamaica (1962), Kenya (1963), Malawi (1964), Zambia (1964), Singapore (1965) and Guyana (1966).

[9]It should also be noted that even during the period 1870-1939 one aspect of transaction power was beginning to show itself [12]. As we have seen, the market structure of many of the new industries was oligopolistic, and the foreign strategy of the constituent firms was designed often to protect their overall position. In such cases, the motive for foreign direct investment was primarily to preclude rivals from gaining a foothold in a foreign market or in response to their penetration of one's own markets rather than to make additional profits.

consumer goods supplied by UK multinational enterprises while other locational variables such as technological infrastructure, market size and growth, and government policies and attitudes towards foreign direct investment and the remittance of profits were generally favorable.

Although there is little reason to suppose that UK companies were influenced by lower production costs in undertaking foreign direct investment before 1914 (noticeable exceptions include those by Lever and Courtaulds in the 1900s[10] there can be no little doubt that they were strongly influenced by transfer costs; indeed, the imposition of tariffs by governments in Continental Europe and the US on important manufactured goods in the late second half of the 19th century was frequently the single most important factor behind the decision by many UK companies to begin foreign manufacture. Company histories and internal documents of such multinational enterprises as Babcock, J and P Coats, English Sewing Cotton, Courtaulds, Dunlop, Gramophone, Lever and Reckitts all testify to this. Tariffs also induced several investments in Commonwealth markets, e.g., those by Lever and Reckitts in Australia, Nobel in Australia, Canada and South Africa, etc. Transport costs encouraged foreign production by companies such as Babcocks, Gramophone and Nobel, whose products were high volume/low value or, in the case of Nobel, dangerous to export over long distances. Tariffs and transport costs often combined to prompt UK companies to establish overseas subsidiaries, particularly in countries where there was strong or emerging indigenous competition; examples include J and P Coats, and English Sewing Cotton in the US.

Host governments also influenced the foreign direct investment decisions of UK companies in other ways before 1914. These included the offering of incentives for local manufacture, e.g., Lever's investment in South Africa; direct requests for participation in local venture, e.g., Vickers investment in Italy, Japan, Canada, Russia and Turkey; patent legislation requiring the local working of a patent, e.g., Dunlop's investments in France and Germany; and, through the encouragement and fostering of nationalism (a particularly important factor in Europe and some during Commonwealth controls during the inter-war period).

During the inter-war years, an Empire-Commonwealth preference for UK foreign direct investment emerged and grew in strength. The locational factors which contributed to this are clear. Firstly, due to psychic proximity, traditional ties and indirect enforcement [31], many UK companies regarded the Empire markets--particularly the White Dominions and India--as a natural

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[10]See C. Wilson, *The History of Unilever*, Vol. 1, p. 99, and D. C. Coleman, *Courtaulds: An Economic and Social History*, Vol. 2, p. 277.

extension of their domestic markets. Most, indeed, had already developed important trading links with them; examples include Coates Bros., George Kent and Metal Box, Chubb, Glaxo and Ransom and Marles. Host-country pulls such as political stability, large and/or growing markets, transportation and communications infrastructure were also generally favorable, especially when compared with Europe where the political situation was volatile, and innovative local firms were buttressed by cartels and government policy [27].

A further stimulus for foreign direct investment at this time was the transportation difficulty that UK firms had faced in exporting to foreign markets during 1914-1918. This reason was cited by companies such as Babcocks, Baker, Perkins, GKN with respect to their markets in Australia, Ferranti in Canada, and Gramophone in Italy. However, most commentators [e.g., 4; 8; 17; 23; 27] cite import restrictions as the main pull of multinational expansion during this period.[11] The economic and political climate, as the inter-war period progressed, increased and strengthened the protectionist stance of governments. Faced with these problems and the consequent loss of important export markets, a growing member of UK companies engaged in foreign direct investment, even though the economic rationale for it was less congenial than it had been prior to the War.

After World War II, the international economic and political scenario became increasingly favorable for foreign direct investment. In the first decade after 1945, the outstanding feature of UK multinational expansion was its almost exclusive orientation towards Commonwealth markets, and especially to Australia, Canada and South Africa.[12] As was the case during the inter-war years, the principal Commonwealth markets were attractive not only because of psychic proximity and traditional ties, but because they offered expanding markets, high incomes, a relaxed attitude to foreign direct investment, and, perhaps most important of all, less intensive competitive pressures than in Europe and US. In addition, UK government exchange control policy favored outward investment directed to the Commonwealth, on account of large sterling credits accumulated by Commonwealth countries during 1939-45.

While these factors explain the attractiveness of the Commonwealth as an overseas production base for UK multinational enterprises, they do not fully

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[11]See: W. J. Reader: *Imperial Chemical Industries: A History*, Vol. 2, p. 198.

[12]Figures contained in Houston and Dunning [16], for example, suggested that the cumulative net flow of direct investment into all Commonwealth countries 1946-60 amounted to 80 percent of recorded UK direct investment during this 15-year period; and that by 1960 about 71 percent of the total stock, excluding oil, banking and insurance was situated in Commonwealth countries.

explain why the companies chose to invest in them rather than export from the UK. Evidence suggests, however, that in many less developed countries, UK companies frequently came under the most intensive economic and political pressure to start local manufacture [1]. As in the inter-war years, governments were keen to develop their economies and local competition was growing under their protection. Nationalism was an important contributory factor to decisions of UK multinational enterprises to establish overseas manufacturing subsidiaries. Barker [3] for example, notes that after 1945, pressures--sometimes political, sometimes economic--were brought to bear on Pilkington to start sheet glass manufacture in South Africa, Canada and India; while the experience of Pilkington in South Africa suggests that UK companies were often forced to manufacture in an overseas market, even when cost considerations determined that UK production was preferable. Reference to Turner and Newall's company history suggests that their Canadian involvements in the 1950s were largely in response to the host Government's desire to become more economically independent in asbestos and related products.

Apart from imposing tariffs, import controls and encouraging economic nationalism, Commonwealth governments influenced UK companies foreign direct investment decisions in other ways. Courtaulds for example, was prompted by government industrialization policies to invest in Australia; Glaxo was approached by the Indian authorities to invest in India; Unilever was asked by the Colonial Development Corporation to assist in the development of the Kenya economy. Conversely, many UK companies were discouraged from investing in India and Pakistan by restrictions on ownership, imports of intermediate products and profit remittances.

After 1960, there was a market shift of interest by UK multinational enterprises in their choice of investment outlets. The earlier preference for a Commonwealth location fell sharply, and an increasing proportion of UK investment was directed to the original six members of the EEC, and to the USA. While conditions in the principal Commonwealth markets became less attractive for many UK companies during the 1960s,[13] recovery followed by expansion in Europe, together with the moves towards economic integration, increased the attraction of markets nearer home. The accession of the UK to the EEC in 1973 underlined new opportunities for UK companies, while the US was clearly a vitally important market throughout the period, although competitive pressures were intense.

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[13]For example, South Africa left the Commonwealth in 1969; UDI was declared in Southern Rhodesia in 1965; there was increasing US competitive pressure in Australia, stagflation in India, losses were being made in Canada, etc.

Stopford [28] suggests that there was a growing propensity for UK companies to invest in countries with per capita incomes higher than in the UK. There is certainly strong evidence to support this, and it could be argued that some UK companies invested in the EEC not because of the existence of the Community *per se* but because of the high income and large markets of the individual member countries in which the investment was made. More recently, the desire of several UK companies to establish a presence in the major centers of technological excellence, has been prompted by the growing phenomena of global competition.

There were, of course, other factors influencing the location of UK multinational enterprise activity. Government pressure and xenophobia prompted import substitution investment be made in the developing countries (especially when the products were considered strategically sensitive) in the EEC (where "economic nationalism remains a potent force and a major barrier to the free trade of assets within the community" [30, p. 85], and in the US (e.g., investments made by Johnson Matthey, GEC, George Kent and Tube Investments). Transfer costs were also influential; tariffs and nontariff barriers caused UK companies, e.g., Bowater, ICI, Tube, Turner and Newell, Vickers to establish subsidiaries in the EEC well before the UK's accession. Transport costs continued to exert a strong influence on the siting decisions of companies producing low value/high volume products, e.g., BOC, British Vita, Hepworth Ceramic, Foseco, Redland, and products that needed to be consumed quickly after manufacture, e.g., United Biscuits short-life cakes.

At the beginning of this section, it was stated that until the 1970s, UK foreign manufacturing subsidiaries largely consisted of a federated group of operations, each of which was designed to produce and sell products for the particular national markets in which it operated. Such affiliates were largely truncated replicas of their parent companies; and the "where" of their location was mainly determined by comparative production costs of their value adding activities and the international transfer costs of intermediate and/or final products. It is also clear from our analysis of the competitive advantages of UK multinational enterprises, that the majority perceived that foreign direct investment was the best way of exploiting these advantages; and that only a few engaged in overseas production as part of a strategy of geographical diversification, aimed to advance their international competitive position.[14] However, we also suggested that there was evidence to suggest that

[14]Numerous UK companies followed such diversification policies during the 1960s, and particularly the 1970s and early 1980s. These policies were followed to reduce the cyclical nature of profits of their products and/or markets; compensate for poor prospects in the UK and their traditional markets; offset mature products and markets, etc. Diversification was seen as giving "flexibility," "stability," "resilience," "strength," etc. and reducing vulnerability.

in the 1960s UK multinational enterprises were becoming more aware of the advantages that multinationality bestowed upon them; and that, during the following two decades, several of them sought to establish integrated operations (especially in the EEC), e.g., ICI, Pilkington and Unilever.

Finally, although it has been observed [16, 30] that, in the 1970, UK multinational enterprises were slower to take advantage of low labor cost locations than their US, other European or Japanese counterparts, there were some noticeable exceptions. BICC (Hong Kong), Clarks (Cyprus), Courtaulds (Tunisia and Morocco), Lucas (Malaysia), Pilkington (Taiwan and Brazil) and Unitech (Mexico) are all examples of UK multinational enterprises which engaged in foreign direct investment in the 1970s so as to take advantage of cheap, plentiful and well motivated labor to produce their labor-intensive products and processes for export markets.

CONCLUSIONS

In this paper, we have used the eclectic paradigm as a theoretical framework for examining the growth of UK manufacturing multinational enterprises since their initial emergence around 1870. The types of multinational enterprises that have dominated UK multinational activity, the sources of their competitive strengths and weaknesses, the geographical orientation of their foreign direct investment, and how these have changed over the last century, has been explained in terms of the changing nature of the OLI variables and the interaction between them.

At the same time, the competitive position of UK firms, particularly in oligopolistic industries, their growth strategies, their attitudes to risk, innovation and diversification, and their perception of, and reactions to, their rivals' actions, have also been shown to be important behavioral variables influencing the investment decisions of UK multinational enterprises when confronted with any particular OLI configuration. Archer [1], for example, has shown that it is not unusual for a UK multinational enterprise to invest in a market which it had previously been servicing quite satisfactorily through exports, largely because of a change--or anticipated change--in the behavior of a major competitor rather than a change in the value of the OLI parameters facing it. Noticeable examples include Shell in US (1912); Pilkington in Canada (1913), Dunlop in Eire, India and So. Africa (1930); Allied Colloids in South Africa (1970s) and BP, ICI, and Plessey in the US during the 1960s and 1970s.

Finally, the growing emphasis that is being placed on a product and process specialization and integration across national boundaries, and on new forms of collaborative arrangements among the leading multinational enterprises, suggests that more attention should be given to the dynamics of the competitive advantages of multinational enterprises; and to the ways in which the interaction between these and the organization and location of their exploitation affect their international competitive position.

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