The Metamorphosis of City and Chase as Multinational Banks

Srinivas B. Prasad[1]

Department of Management
Central Michigan University

Banks echo the distant past, and financial capital has crossed political boundaries from times immemorial. Banks in Europe and America have been in multinational business for centuries. Whether American banks in the past were guided by the principle of minimizing internal transaction costs as the 'internalization theory' holds, or whether they invested abroad sequentially as the stage-theory maintains, remains to be examined. Such inquiries can be made with the aid of bank histories. As expressed by Wilkins [1995, pp. 8-9], the "business historian pushes the student of contemporary international business to look at the roots and patterns of development and to identify the paths and processes[2] in the growth of the multinational enterprise." In other words, a richer explanation of the multinational phenomenon can be sought by blending insights from the histories of firms and the contemporary theories of multinational enterprises. The earliest effort in the direction of developing historical-theoretical perspectives of the multinational enterprises was initiated by Hertner and Jones [1986] and the topic of multinational banks, in particular, was expounded in the compendium edited by Jones [1990].

The purpose of the paper is to briefly examine the multinational theories[3] in the light of the histories of City National Bank and the Chase National Bank, both of which had evolved, prior to the 1950s, as multinational banking enterprises.[4] The following analysis offers some evidence for the 'stage-theory' of internationalization; however, the foreign direct activities of the two American banks in the early twentieth century were propelled more by the interplay of the external contexts and the leadership roles of the chief execu-

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[2] Some writers include 'internationalization' and the 'stage-theory' as theories of the internationalization process. A critical evaluation can be found in Anderson [1993].

[3] There are three strands: the 'internalization'; the 'stage-theory' and the 'network approach.' The network approach is assumed to be a common practice in banking known as 'correspondent banking.' Therefore, references are to the first two theories expounded in the mid-seventies.

[4] The term ' multinational' is used here as a synonym for the multinational corporation, multinational enterprise, global firm and the like.

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tives than by the 'internalization theory' imperatives such as the drives to minimize transaction costs and to maximize control.

Two Multinational Theories

The internalization theory has been built on the monopolistic advantage notion advanced by Caves [1971]. Its main postulate has been that multinational firms strive to seek control of monopolistic advantages in order to safeguard them against market imperfections. The firm's activities "are brought under common ownership and control in a market 'internal' to the firm" [Buckley and Casson, 1976, p.47]. The theoretical focus has been on the industrial firm. As at present, service firms, in particular banks, also have played a pivotal role in the past.

Focusing on banks, Casson [in Jones, 1990, pp. 24-25] has explained that the post-war expansion of U.S. retail banking reveals that foreign direct investment in manufacturing (sector) created a new demand for corporate banking services. Banks set up foreign subsidiaries because the alternative such as 'exporting of banking services from the United States' or 'correspondent relationship' was not optimal. This economic view, however, may not be a fuller explanation of the multinational banking phenomenon because bank histories offer two important insights. One is there has been a 'process' in the expansion abroad of banks. Two, akin to their industrial counterparts, banks also have exported some proprietary financial products from home base, forged joint ventures and alliances, and set up their own foreign branches or subsidiaries at the same time, indicating that the alternatives to national banks were not mutually exclusive.

'Stage-theory,' in contrast to the 'internalization' theory, can be characterized as an explicit corporate history-based model of internationalization [Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977]. It considers the variables such as a firm's resources, its knowledge, its organizational cultural proximity to its foreign locations and cultures, and explains the related paths and processes of international expansion. Relying for its conceptualization on the business histories of four Swedish industrial companies,[5] the stage-theory seeks to capture the dynamics of how firms make decisions, the incremental stages through which a firm metamorphoses, and how they overcome their own resource limitations. "The firm first develops in the domestic market and its internationalization is the consequence of a series of incremental decisions. The main obstacles are lack of knowledge and resources. These obstacles are reduced through incremental decision-making and learning about the foreign markets and operations" [Johanson and Wiedersheim-Paul, 1975, p.306].

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[5] These were Atlas-Copco, Facit, Sandvik and Volvo. Based on the evolution of these firms as multinationals, the authors construct a model that includes variables such as resources committed to foreign markets, knowledge of foreign market conditions, psychic distance or cultural proximity of foreign business and incremental involvement abroad.

Even though the 'stage-theory' was also formulated in the context of industrial firms, its postulates are germane to service firms. Banks had been service firms to their borrowers and clients, and their histories contain the dimensions that reveal the processes of their internationalization. The following sketches of National City Bank and Chase National Bank are drawn from published historical volumes such as Cleveland and Huertas [1985], Wilson [1986], Miller [1993], Zweig [1995] and Chernow [1998]. The focus in these sketches is on major events at the banks and the growth initiatives of their executives whose formal titles remained as presidents until about the 1940s. The first sketch is about City Bank which became National City Bank in 1865.

National City Bank

In 1811, a group of New York merchants petitioned for a new bank, the City Bank.[6] With legislative approval, on June 16, 1812, City Bank opened for business with Samuel Osgood as its president, with an initial capital of $2 million. It was a bank of and for its merchant owners and directors. Its loans went mostly to the insiders. Within a few years after its founding, the bank fell into financial disarray. In 1825, the founders lost control to the new owner Isaac Wright, a textile merchant, who himself became the bank's president in 1827. Wright was more a merchant than a banker, though he held office as the president until 1832.

After the financial panic of 1837, City Bank also faced a decline in the circulation of its notes and was near collapse. John Jacob Astor invested in the bank, took control and named his protégée Moses Taylor, as a director on June 6, 1837. Taylor became the president[7] of City Bank in 1856, began acquiring controlling equity in the bank. "He certainly could not be called a banker, but he did keep the bank in business," according to Zweig [1993]. After receiving a national charter in 1865, the bank renamed itself as National City Bank.

After Taylor's death in 1882, his son-in-law Percy Payne was promptly named the president. He managed the bank in the Taylor's tradition. Between 1857 and 1891, the assets of the bank had grown in tandem with the fortunes of the Taylor family. The assets amounted to $1.7 million in 1837 when Taylor first became a director to about $17 million in 1882 and to about $22 million in 1891 when Payne suffered a stroke and had to resign.

Succeeding Payne as president was James Stillman. Much as Moses Taylor, Stillman used the bank to finance his personal business empire. Stillman, an investment banker, had issued on his own account, railroad and industrial

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[6] Samuel Osgood, mitigated the controversies surrounding the proposed bank and devised his own version of it which was approved by the New York State legislature in 1812.

[7] Some of the well-known presidents of the bank were: Samuel Osgood, 1812-1813; Isaac Wright, 1827-1832; Moses Taylor, 1856-1882; James Stillman, 1891-1909. Stillman evidently was the first president to be named as Chairman which title he held 1909-1918. Other subsequent chairmen included: James A. Stillman, 1918-1919; James Perkins, 1933-940; James Stillman Rockefeller, 1959-1967; George Moore, 1967-1970, and Walter B. Wriston, 1970-1984.

bonds. "With the bank under his control, Stillman did underwrite on a larger scale. He continued to take the underwriting risk personally, and used the bank to support these efforts" [Cleveland and Huertas, 1985, p.33]. To Taylor's client companies Stillman added leading industrial firms, correspondent banks around the world, and the government of the United States, providing them with a plethora of financial services. They in return boosted their balances at the bank, making National City Bank, a big business bank. Stillman also hired Frank Vanderlip, an assistant Treasury Secretary, as vice president in 1901.

National City Bank was the nation's largest bank in 1900 with $150 million in assets. It had been active in financing international business, dealing in foreign exchange, and commodity trading. By 1902, its foreign exchange operations were at par with its rivals in scope, if not in scale. Through its foreign exchange department, it transferred funds from and to points around the globe and financed America's burgeoning foreign trade–particularly in the cotton business in which Stillman's brokerage units were involved–and fledgling foreign investment. Thus, there is some evidence for the primacy of foreign exchange activities.

Its foreign correspondent banking network was also comprehensive. The links included Midland Bank, England; the Deutsche Bank, Germany; and the Hong Kong and Shanghai Bank. Total balances on deposits (with some 130 banks around world in 1912) amounted to $6 million. The nature of foreign correspondent banking at National City Bank was rather unusual. Stillman placed emphasis on selling his bank's financial services to the foreign banks rather than procuring services from them.

Vice president Vanderlip initiated a trust company under the State charter. It was named National City Company. He, Stillman and Stephen Palmer became the trustees. Long intrigued with international branch banking, Vanderlip, as early as February 1903, had evaluated the possibility of acquiring an interest in the International Banking Corporation (IBC) which had been in business in the far east for almost a century. In 1905, when one of IBC's founder died, National City Bank acquired IBC. With IBC in hand, Vanderlip's vision of National City Bank as an emerging multinational financial enterprise was translated into reality. The Federal Reserve Act of 1913 allowed the national banks to set up branches abroad. Vanderlip wasted few precious moments. While he pondered international branch banking, the bank's leading depositors as well as others such as the U.S. Steel Company urged Vanderlip to 'go abroad.' He did.

In brief, National City Bank had emerged as a bank for big business, a prominent foreign exchange firm, a deposit bank for the Federal Government, and one of the major correspondent banks in the world. Its acquisition of IBC in 1905 was the first foreign direct venture. Figure I includes a sketch of the metamorphosis of National City Bank into the multinational financial group—now known as Citigroup.

Chase National Bank

John Thompson,[8] a publisher of a bank note newsletter and a private banker, collaborating with three other merchants in 1877, founded the Chase National Bank in a one-room office at 117 Broadway, New York City. He named the new bank after Salmon P. Chase, the Secretary of the Treasury under President Lincoln. Since that time, 'Chase' has been the recognized name of a financial powerhouse[9] whose leaders in the twentieth century have also been organization architects and builders who had cultivated an extensive personal network among men with money and power in many a nation.

Henry W. Cannon succeeded Thompson as President in 1887. Under his leadership, the bank came to be known as a "banker's bank," providing correspondent banking services for other banks and offering a plethora of banking, credit, and advisory services. By 1900, assets and deposits at Chase had grown respectively to $48 million and $43 million, with most of the deposits flowing from other banks. After Cannon, Albert Wiggin became president; he mapped out a strategy for the bank's growth by means of mergers and acquisitions. Chase National Bank's assets, under the leadership of Wiggin, grew to $535 million by 1920.

Chase National also became well established in the burgeoning field of international commercial credit and finance. Chase opened a representative office in London in 1923 and soon thereafter began lending directly to governments and firms in Europe. In its drive to position itself as a national and an international pacesetter, Chase, under the leadership of Wiggin, reached a milestone in 1927: total assets reached $1 billion. But allegations of speculative activity forced Wiggin out of his office around 1931. When Wiggin resigned,

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[8] For a time he was a mathematics teacher in Albany, New York, and later became associated with Yates & McIntyre, a firm that promoted lotteries. John Thompson was fairly successful in selling lottery tickets. He moved to New York City in 1833 and opened a brokerage office on Wall Street. His contacts with the financial world revealed a business opportunity: It was difficult to distinguish one bank's notes from another's, and hence Thompson foresaw the need for special advise to bankers and merchants. Accordingly, in 1842, he started the publication of Thompson's Bank Note and Commercial Reporter. In the course of the Civil War, through this publication, Thompson caught the attention of Treasury Secretary Salmon P. Chase. In the nineteenth century, under free banking statues, the "banks of circulation functioned solely as paper-money factories...To form a bank, a group of individuals would pool their promissory notes to borrow funds for the initial capitalization. With those funds, they would purchase securities and print up an issue of note" [Prescott, 1963]. In 1863, Thompson received the charter for his First National Bank. However, the bank in 1873 came under the equity control of George F. Baker and Harris Fahnestock who wanted him to continue as president of the Bank. In 1877, he left and at age 75, along with his two sons and merchant friends, founded the Chase National Bank.

[9] Chase National merged with Equitable Trust in the 1930s. It acquired the Bank of Manhattan in the mid-fifties. Since 1955 it had been known as the Chase Manhattan Bank. Chemical Bank acquired Chase Manhattan in 1996 and the new consolidated organization took on the well recognized name of Chase rather than Chemical.

Aldrich, who had been a senior legal executive of Equitable Trust Company[10] was selected to head Chase National Bank. A few months later, Aldrich orchestrated a merger between Equitable and Chase [Chernow, 1998, p. 664], making it the world's largest bank whose assets exceeded $2.5 billion." The representative offices abroad of Chase and the foreign branches of Equitable were consolidated as foreign operating units of the newly formed Chase. For nearly two decades Aldrich was instrumental in the transformation of Chase into a multinational financial enterprise.

Chase under Aldrich, 1933-1952

Aldrich had emerged as a national spokesperson for the banking industry in the United States, leading the movement to separate commercial banking and investment banking and contributing significantly to the passage of the Glass-Steagall Act of 1933. Aldrich, though not a banker by training, made many bold strategic moves at Chase National Bank. For example, in 1936, recognizing the potential for expertise of Chase in the petroleum industry, as Wilson [1986] recalls, he recruited the noted geologist and petroleum engineer Joseph E. Pogue from Northwestern University who built an outstanding department of credit analysts, economists, geologists and petroleum engineers at Chase. In the late 1940s, Chase stepped up its international expansion by setting up branch banks in Germany and Japan.

Aldrich's vision for the future of the bank can be gleaned from his Report to shareholders in which he proclaimed: "the indispensable work of making postwar plans must be carried on according to a set of definite principles." [Chase Annual Report, 1945, p. 6] He saw Chase National Bank as an instrument in the economic reconstruction of Europe. Similar to National City Bank, Chase National also served as a banker to the U.S. government. In 1945 Chase had assets of $6 billion of which $3.5 billion represented various loans made by the bank and guaranteed by the federal government.

As Wilson [1986, pp. 293-295] details, Chase National concentrated on three market segments–wholesale banking, correspondent banking, and foreign banking in which Aldrich was directly involved. The organizational form was "matrix." The Bank's merger with Equitable Trust and the subsequent consolidations were reflected in the "matrix" organization. Geographically, Chase was divided into European, Latin American, Near- and Far-Eastern segments, with separate units also responsible for handling domestic (commodity) credits, commercial letters of credit, foreign exchange, and money transfer. Equitable's

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[10] A common form of a trust company had been when the trust company took on the role of being "the mortgagee in trust for the bond holders. But in time, the trust companies drifted into banking business"[White, 1895, pp.363-364). More significantly, some of them emerged as rivals to national banks. Trust companies "were often similar to private banks" [Wilkins, 1990]. The Equitable Trust Company, set up by John D. Rockefeller, Sr. had foreign branches in Hong Kong, London, Mexico City and Paris. In short, it had been a multinational financial enterprise by 1930.

branches had nurtured close business relationships with foreign correspondent banks. With the resumption of its worldwide business in 1946, the foreign department spearheaded by Aldrich, played a vital role.

The recovery of world trade, and the expansion of economic activity abroad created a plethora of new business opportunities. In 1946, Chase reported that the volume of business in all of the units of its Foreign Department increased substantially. Deposits held for foreign accounts rose to a record level, and commercial letters of credit were in great demand. In late 1947, at the invitation of the military authorities, Chase expanded its branch network in both Germany and Japan. These branches, at first, largely served the needs of the U.S. military units and their personnel. There was a clear line of demarcation between Chase facilities in both Germany and Japan and the bank's main foreign branches in London and Paris which were positioned to finance growing European trade with the United States. Representative offices, rather than branches, were reopened in Rome in 1947 and in Buenos Aires in 1948. Chase became the principal link to the National Bank of Yugoslavia in 1948 and for the new Central Bank of the Philippines in 1949. In 1949 Chase extended its first loan to Spain–a $25 million credit secured by gold. Chase's Latin American operations during 1950-1951 were headed by David Rockefeller.

In sum, the executive leadership of Aldrich and many of the major initiatives he took–the creation of a petroleum unit, the opening of foreign branches, the setting up of the Foreign Department --bolstered the status and strength of Chase National as a multinational bank approaching what Perlmutter [1969, pp. 12-13] has referred to as the 'geocentric stage'[11] in the evolution of the multinational. Chase, in the mid-forties can be said to have entered the geocentric phase under chairman Winthrop Aldrich. In 1955, Chase National acquired the Bank of Manhattan and was renamed Chase Manhattan Bank. Figure II sketches the expansion of Chase from 1877 through the 1950s.

Thus, the expansion of foreign units of Chase National appear to have been influenced more by the needs of the U.S. Government and by the role played by the opulent merchant-traders than by the financial intermediaries' own international business strategy. Winthrop Aldrich at Chase National and Frank Vanderlip at National City Bank played prominent roles in the financial drama and the transformation of these two banks in the pre-1950 era. These illustrations underline the notion that personal involvement of CEO energized the global mind-set of the financial firm.

Conclusion

Both the "internalization" theory and the "stage theory" offer logical, but partial, explanations of the multinational firm; the former explains, in economic terms, the 'why', the latter, in business terms, the 'how.' Yet, as Hertner

[11] This is the ideal stage (or "nirvana" as the Hindu scriptures contend) in individual or organizational life to strive for knowing one can never reach it.

and Jones [1990, p.7] have observed, "studies of contemporary multinational enterprises (MNEs) seem very abstract. There is a great deal of historical data that would appear to offer rich opportunities to test theories about contemporary MNEs or refine and develop new theories." As noted earlier, the 'stage-theory' is less abstract-theoretic than the 'internalization theory.' Casson's [1990] internalization explanation, for example, does not shed much light on the multinational expansion of banks before World War II. The postulates of the "stage-theory" contribute to the 'how' of the pre-war internationalization of National City Bank and Chase National Bank. The histories of financial firms, namely, National City and Chase National also suggest that these banks possessed "knowledge" and cultivated 'new knowledge' from within and through external networking with financial and industrial firms. The initiatives taken by the bank executives in regard to mergers and acquisitions and their personal networking also loom large in the transformation of the banks.

At City National there were numerous acquisitions before and after 1929. The acquisition of Farmers' Loan and Trust in 1934, and merger with First National Bank (1955) were the notable ones. At Chase National, it becomes clear that its merger with Equitable Trust Company 1930 ushered in growth and a geocentric outlook.

The seeds of internationalization of City Bank were sown during the Stillman-Vanderlip era and at Chase by Winthrop Aldrich in the 1930s. Aldrich as well as Stillman and Vanderlip were both the architects and organization builders. They were instrumental in establishing the personalized contacts and relationships in major money centers in Europe and the Middle-East. Thus, it can be inferred that the foreign banking activities of the two banks in the early part of the century were driven more forcefully by the interplay of external opportunities and the executive leadership of the bank chiefs than by the imperative of transaction costs and control.

Future research efforts need to take into consideration the histories of other American and European banks, and the instrumental roles of the executives. It is also desirable to categorize the findings as "the range of theoretical insights" [Hertner and Jones, 1990, p.5]. Such a range could accommodate the differing theoretical perspectives that, in the aggregate, offer a richer and fuller explanation of the multinational financial and industrial enterprises.

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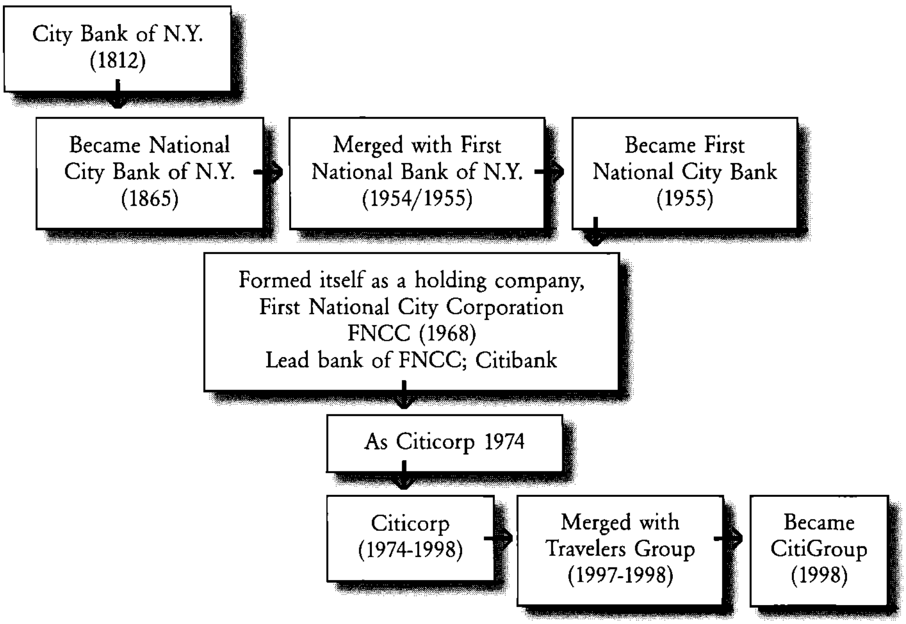
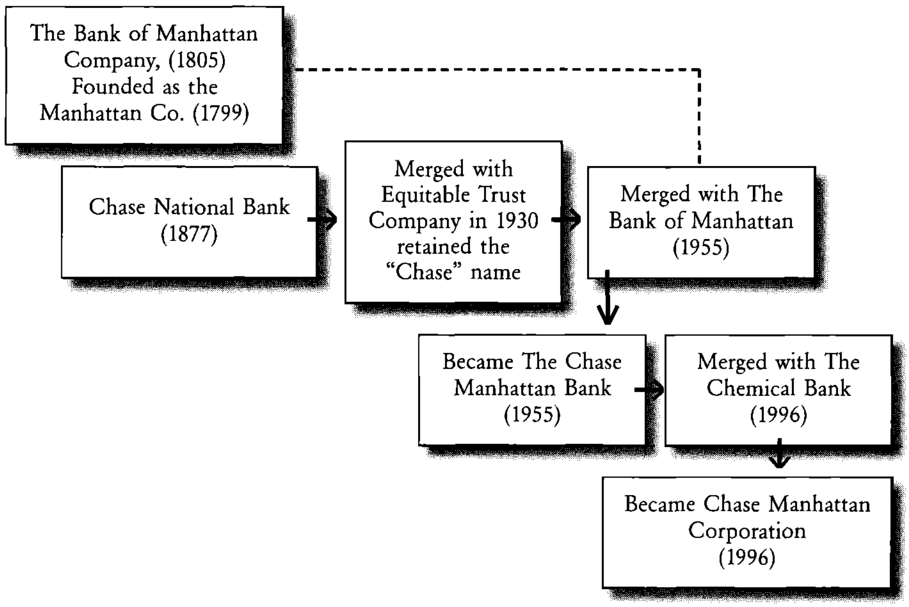
Figure 1. Metamorphasis of Citigroup, 1812-1998



Source: From a section of the author's project funded by Central Michigan University, 1998-1999

Figure 2. Evolution of Chase Manhattan Bank, 1877-1996



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