



## Entrepreneurial Theory and the History of Globalization

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In this article, we build on the recent efforts of scholars to re-introduce entrepreneurship into the research agenda of business historians. We examine the value and limitations of adapting recent social scientific theories and methods on entrepreneurship to research on international business history. Specifically, we focus on three recent areas of social scientific work on entrepreneurship and weigh their value to business history research. First, we consider how scholars can employ research on entrepreneurial cognition to understand the historical ownership advantages of multinational firms. Second, we draw on concepts from entrepreneurial strategy and finance and examine their use in understanding the history of how firms allocated resources to uncertain international ventures. Finally, we look at the question of the diffusion of the benefits of globalization and their impact on entrepreneurship within host economies. We conclude that the cautious adoption of some of these recent conceptual developments offers fertile opportunities for further research in international business history.

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The recent reappearance of entrepreneurship in the research agenda of business historians is striking.<sup>1</sup> During the immediate post–World War II decades, business historians were central actors in an interdisciplinary effort to understand entrepreneurship. Subsequently researchers encountered major methodological roadblocks, and attention shifted elsewhere. However, in recent decades, as business history’s research agenda has moved beyond

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<sup>1</sup> Youssef Cassis and Ioanna Pepelasis Minoglou, eds., *Entrepreneurship in Theory and History* (New York, 2005); Andrew Godley, *Jewish Immigrant Entrepreneurship in New York and London, 1880-1914: Enterprise and Culture* (New York, 2001).

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big business toward subjects such as smaller firms, family business, networks, and diaspora, so interest in entrepreneurship has belatedly re-emerged.

We suggest that business historians can gain much by employing an entrepreneurial perspective to deepen our understanding of aspects of the history of global capitalism. This may seem superfluous, given the enormous literature on the historical causes and patterns of globalization. However, the role of entrepreneurship currently receives little attention within the main theoretical frameworks used to examine the history of global capitalism. Economic historians such as Jeffrey Williamson, who employ a neo-Ricardian approach emphasizing relative factor prices combined with transportation and communications costs, see no role for business enterprises as actors.<sup>2</sup> Nor do the political scientists and institutional economists who emphasize the role of national institutions in explaining shifts in the history of globalization. This leaves business historians, alongside international business researchers, to identify firms as the drivers of globalization.<sup>3</sup> This literature, however, has generally employed an organizational focus on the multinational enterprise, often by borrowing insights from Alfred D. Chandler, Jr. As a result, little attention has been paid to issues such as entrepreneurial subjectivity, cognition, uncertainty, and judgment in international business history.

Beginning with a review of the place of entrepreneurship in business history, we explain why the moment might be right for a renewal of research on the topic. We examine three aspects of the history of global capitalism that incorporating an entrepreneurial perspective might enhance, using some of the conceptual advances made in studying entrepreneurship in recent decades.

### **Entrepreneurship and Business History: First Mover Disadvantages?**

Historical research on entrepreneurship began in the early twentieth century, with the examination by a number of historians and historical sociologists of the mentality and agency of entrepreneurs in the process of economic change. German historical sociologists explored the role of religion and social relations in the development of modern capitalist attitudes toward economic gain and economic opportunity.<sup>4</sup> By the middle decades of the century,

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<sup>2</sup> Jeffrey Williamson and Kevin O'Rourke, *Globalization and History* (Cambridge, Mass., 1999).

<sup>3</sup> Mira Wilkins, *The Emergence of Multinational Enterprise* (Cambridge, Mass., 1970); Mira Wilkins, *The Maturing of Multinational Enterprise* (Cambridge, Mass., 1974); Geoffrey Jones, *Multinationals and Global Capitalism: From the Nineteenth to the Twenty-First Century* (New York, 2005).

<sup>4</sup> Max Weber, *The Protestant Ethic and the Spirit of Capitalism* (1904; New York, 1930 English ed.); Georg Simmel, *The Sociology of Georg Simmel*, ed. Kurt H. Wolff (1908; English trans., New York, 1950); Werner Sombart, *The Jews and Modern Capitalism* (1911; English trans., New Brunswick, N.J., 1982).

economic and business historians were engaged in research on the careers of influential eighteenth-century entrepreneurs as a way of understanding the causes of the Industrial Revolution.<sup>5</sup> These studies focused attention on the creative agency and subjectivity of individuals in the process of economic change.

In the United States in the 1940s and 1950s a number of historians, inspired in part by Joseph Schumpeter's concept of entrepreneurship as an agent of disruptive economic change, began to push business history beyond the earlier biographical studies of entrepreneurs to higher levels of conceptualization. Economic historian Arthur Cole led the group in the United States. In 1948, he organized the Center for Research on Entrepreneurial History, based at Harvard University. Affiliates of the Center included economists and sociologists as well as historians, and Cole encouraged a wide range of approaches to "entrepreneurial history," including socio-cultural studies of entrepreneurial origins, neoclassical economic approaches, and work that focused on the evolution of industries and organizations. While research in entrepreneurial history took off in eclectic directions, the Center and its journal, *Explorations in Entrepreneurial History*, provided the institutional mechanisms for bringing this wide-ranging empiricism together in ways that informed common concepts and theories of entrepreneurship.<sup>6</sup> Arthur Cole also published several articles and books in which he attempted to synthesize the empirical research and use it to address theories of entrepreneurship.<sup>7</sup>

By the 1960s, however, a distinct shift among American business and economic historians led them away from "entrepreneurial history" and its eclecticism. In part, this was due to declining financial and institutional support for the Center, which closed its doors in 1958. More important, younger business historians were drawn increasingly to the more focused organizational and managerial studies that Chandler had pioneered.<sup>8</sup> By 1970, a clear shift had taken place in American business history research toward building an "organizational synthesis" of the emergence of the

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<sup>5</sup> Thomas S. Ashton, *An Eighteenth-Century Industrialist: Peter Stubs of Warrington, 1756-1806* (Manchester, U.K., 1939); Charles Wilson, "The Entrepreneur in the Industrial Revolution," *Explorations in Entrepreneurial History* 7 (Feb. 1955): 129-45; Neil McKendrick, "Josiah Wedgwood: An Eighteenth-Century Entrepreneur in Salesmanship and Marketing Techniques," *Economic History Review*, n. s. 12 (1959): 408-33.

<sup>6</sup> Steven Sass, "Entrepreneurial Historians and History: An Essay in Organized Intellect" (Ph.D. diss., Johns Hopkins University, 1978).

<sup>7</sup> Arthur H. Cole, *Business Enterprise in Its Social Setting* (Cambridge, Mass., 1959); Arthur H. Cole, "Introductory Remarks," *American Economic Review* 58 (May 1968): 60-63; Jonathan R. T. Hughes, "Arthur Cole and Entrepreneurial History," *Business and Economic History* 12 (1983): 133-44.

<sup>8</sup> Alfred D. Chandler, Jr., *Strategy and Structure* (Cambridge, Mass., 1962).

modern, multidivisional corporation.<sup>9</sup> At the same time, American economic historians increasingly adopted orthodox neoclassical economic theory and quantitative methods in their research, rejecting the eclecticism of “entrepreneurial history” and adopting neoclassicism’s traditional skepticism of entrepreneurship as a concept. Emblematic of this change was the revival of the defunct *Explorations in Entrepreneurial History* as *Explorations in Economic History*, a publication devoted to the new quantitative, neoclassical studies.<sup>10</sup> Over the next two decades, the Chandlerian organizational approach and the New Economic History’s quantitative approach would be the two dominant streams of research in business and economic history.

Although business historians continued to research entrepreneurship and to cite such theoretical classics as Schumpeter, Knight, and Kirzner, they were largely divorced from the new social scientific literature and theories on entrepreneurship that began to emerge in the 1980s. Instead of looking at what caused entrepreneurial behavior or its consequences, as Stevenson and Jarillo pointed out, the management literature emphasized the need to investigate what entrepreneurs actually do.<sup>11</sup> They suggested studies on “the different life cycles through which new ventures pass,” “the problems entrepreneurs face as their companies mature,” and the role of networks in entrepreneurship. More recently, management scholars working in the field have added cognitive research to the behavioral approach in order to emphasize the “opportunity identification” aspects of the entrepreneurial process.<sup>12</sup>

The behavioral and cognitive approaches that now predominate are starkly different in assumptions and method from the historically and socially contextualized early studies of entrepreneurship. The earlier scholars’ focus on the historical and social determinants of entrepreneurship rendered entrepreneurs captive to their historical and social contexts. In focusing on individual behaviors rather than contexts, management scholars and social scientists have implicitly reasserted the fundamental agency of entrepreneurs and opened up directions for research that were foreclosed by the “over-determined” nature of the earlier scholarship.<sup>13</sup> The new behavioral approach

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<sup>9</sup> Louis Galambos, “The Emerging Organizational Synthesis in Modern American History,” *Business History Review* 44 (Autumn 1970): 279-90.

<sup>10</sup> Harold Livesay, “Introduction,” in *Entrepreneurship and the Growth of Firms*, ed. Harold Livesay (Aldershot, U.K., 1995), xi-xviii.

<sup>11</sup> Howard Stevenson and J. Carlos Jarillo, “A Paradigm of Entrepreneurship: Entrepreneurial Management,” *Strategic Management Journal* 11 (Summer, 1990): 17-27.

<sup>12</sup> Scott Shane and Sankaran Venkataraman, “The Promise of Entrepreneurship as a Field of Research,” *Academy of Management Review* 25 (Jan. 2000): 217-26.

<sup>13</sup> Elsewhere we argue that the new social scientific literature has taken its assumptions about entrepreneurial agency too far in the other direction, allowing for few historical and social constraints on the behavior of entrepreneurs; see R. Daniel Wadhvani and Geoffrey Jones, “Schumpeter’s Plea: Historical Approaches to the

has in turn yielded important insights into how entrepreneurs operate. Particularly strong streams of research have developed on the financing of new ventures, the role of entrepreneurial networks in assembling resources, issues of organization formation and governance in new ventures, the dynamics of entrepreneurial districts, entrepreneurship among larger, established firms, and the role of alliances with universities and other institutions. Business historians know little of this work, and management scholars have almost no awareness of historical context, or of the debates and issues explored by business historians in past decades. This situation presents an opportunity for each side to learn from the other and to enhance our collective understanding of subjects such as globalization.

### **Entrepreneurial Cognition**

As pioneering economists such as Hymer, Vernon, and Dunning realized from the 1960s that it was unsatisfactory to treat multinationals simply as arbitrageurs of capital moving equity from countries where returns were low to those where it was higher, so the search began for the determinants of multinational growth. Beginning with Hymer's 1960 thesis on "The International Operation of National Firms," an underlying assumption of most theories of the multinational was that a firm needed an "ownership advantage" over local firms in order to overcome a "liability of foreignness," as local firms were assumed to possess superior knowledge about the markets, resources, legal and political system, language, and culture. Technology, management capabilities, access to finance, and privileged access to raw materials were all plausible sources for the ownership advantage a foreign firm might possess. In developing the theory of the multinational enterprise, in order to explain the choice of foreign direct investment (FDI) over exploiting ownership advantage by exporting, discussing locational factors (such as tariffs or market size) within host economies was necessary to explaining firms' locations. Scholars also employed transaction costs theory to explain why firms preferred to expand their boundaries over borders rather than use markets to avoid search and negotiating costs, as well as costs of moral hazard and adverse selection, and to protect their reputations.<sup>14</sup>

The first studies of the history of international business, including John H. Dunning's pioneering study of American direct investment in Britain and Mira Wilkins's *The Emergence of Multinational Enterprise*, still unsurpassed as a history of American multinational investment before 1914, implicitly used this explanatory framework well before the terminology of ownership,

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Study of Entrepreneurship," *Academy of Management Best Paper Proceedings*, 2006, CD-ROM.

<sup>14</sup> Jones, *Multinationals and Global Capitalism*.

location, and internalization was coined.<sup>15</sup> The issue of why firms invested abroad has remained a staple of business history research.

Entrepreneurship was a persistent, but seldom central, theme in these studies. In her early study of the internationalization of American Radiator Company, Wilkins criticized the insufficiency of international business theories based purely on comparative advantage and strategic thinking, and highlighted the importance of evolutionary choices and uncertainty in entrepreneurial decision-making.<sup>16</sup> She emphasized the importance of understanding a series of specific path-dependent entrepreneurial decisions in the firm's growth that shaped options and outcomes. In the conclusion to *Emergence*, Wilkins also discussed the "alert American entrepreneurs" who "sought opportunities beyond the national boundaries."<sup>17</sup>

Subsequently, as the focus of Wilkins's work shifted into the twentieth century and she and most other researchers concentrated on the strategies of large firms, entrepreneurship as such received lesser emphasis. Jones, in his study of British multinationals, noted that "entrepreneurship was often a vital asset for British companies expanding abroad," but left it at that.<sup>18</sup> In a pioneering article on multinational theory and history, Mark Casson noted that entrepreneurship was missing from theories of ownership advantage, and called for the development of a "dynamic theory of ownership advantage using the economic theory of the entrepreneur."<sup>19</sup> Despite such calls, however, research on the history of international business has continued to treat entrepreneurship rather uncomfortably as one component in a laundry list of ownership advantages that led firms to invest across borders.

Central to this issue is the theoretical question of what role, if any, entrepreneurial cognition plays in shaping how firms pursue new business opportunities across borders. We can conceive entrepreneurial cognition as the personal lens through which entrepreneurs develop conjectures about how they might profitably exploit ownership advantages. Much of the entrepreneurship literature employs the truncated concept of "opportunity recognition" or "alertness" to capture the notion of entrepreneurial cognition of profit-making opportunities.<sup>20</sup> The problem with these shorthand phrases

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<sup>15</sup> John H. Dunning, *American Investment in British Manufacturing Industry* (London, 1958); Wilkins, *The Emergence of Multinational Enterprise*.

<sup>16</sup> Mira Wilkins, "An American Enterprise Abroad: American Radiator Company in Europe, 1895-1914," *Business History Review* 43 (Autumn 1969): 326-46.

<sup>17</sup> Wilkins, *The Emergence of Multinational Enterprise*.

<sup>18</sup> Geoffrey Jones, "Origins, Management and Performance" in Geoffrey Jones, ed., *British Multinationals: Origins, Management and Performance* (Aldershot, U.K., 1986), 7.

<sup>19</sup> Mark Casson, "General Theories of the Multinational Enterprise: Their Relevance to Business History" in Peter Hertner and Geoffrey Jones, eds., *Multinationals: Theory and History* (Aldershot, U.K., 1986), 54.

<sup>20</sup> Shane and Venkataraman, "The Promise of Entrepreneurship"; Israel M. Kirzner, "Entrepreneurial Discovery and the Competitive Market Process: An Austrian Approach," *Journal of Economic Literature* 35 (March 1997): 60-85.

is that they imply that the primary function of entrepreneurial cognition is the discovery of extant information or knowledge about profitable opportunities. They overlook the fact that entrepreneurial cognition often employs judgment and personal beliefs in the development of conjectures about the profitability of future markets or products because of the significant amount of incomplete information and uncertainty involved. Stanley Metcalfe has highlighted that “[t]he point about these [entrepreneurial] conjectures is that while they may have a partial basis in knowledge, they rest in large part on beliefs that are yet to be tested, to be confirmed or falsified.”<sup>21</sup> At the heart of entrepreneurial cognition, Metcalfe asserts, is “the Schumpeterian conception of *imagined new combinations* . . . lead[ing] the way to new dispositions of resources.”<sup>22</sup> Casson’s contention that entrepreneurship involves the exercise of business judgment is similar in its emphasis on personal experience and perceptions in the process of entrepreneurial decision-making.

One opportunity for delving deeper into the drivers of international business appears to be the exploration of such a role for entrepreneurial cognition. Take, for example, the well-known case of Singer Sewing Machines, one of the world’s first multinationals in the nineteenth century. As is well known, the invention at the beginning of the 1850s of the world’s first commercially successful sewing machine was the basis for Singer’s growth. By 1867, Singer had become the largest manufacturer of sewing machines in the world. It was also one of the first manufacturing companies to open a foreign factory, in Glasgow, Scotland. Within twenty years, it was the largest sewing machine factory in the world and served as the basis for Singer’s triumph in global markets.<sup>23</sup> This familiar story begs a number of questions. Singer was not a technology leader in sewing machines. The crucial decision to invest abroad was made after the end of the American Civil War, when other U.S. competitors took the quite rational decision to stay at home to exploit the rapidly growing domestic market. Why did Singer perceive that global opportunities made it worthwhile to take the risk of foreign direct investment?

There are many such puzzles in the subsequent history of international business, related to the issue of why firms have made very different and persistent choices when faced with broadly similar market conditions. For example, during the interwar and postwar years, two large consumer products companies selling detergents and toiletries, Anglo-Dutch Unilever and U.S.-based Colgate-Palmolive, made worldwide foreign direct investments. In contrast, Procter & Gamble (P & G), about twice the size of Colgate, remained heavily focused on the North American market despite

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<sup>21</sup> Stanley Metcalfe “Entrepreneurship and Evolution” in *Oxford Handbook of Entrepreneurship*, ed. Mark Casson, et al. (Oxford, U.K., 2006), 59-90.

<sup>22</sup> Metcalfe, “Entrepreneurship and Evolution,” 62-63 [emphasis added].

<sup>23</sup> Andrew Godley, “Selling the Sewing Machine around the World,” *Enterprise & Society* 7 (June 2006): 266-314.

being a technological leader in many categories. It made limited international sales of shampoo in Canada and other developed countries, and of toilet soap in a few Latin America countries and the Philippines. From the 1950s, P & G expanded its international business in detergents and later in diapers into Europe, seldom beyond. In the 1970s Head and Shoulders, the firm's revolutionary anti-dandruff shampoo launched in 1961, held one-quarter of the American market, but the product was sold in only half a dozen countries outside the United States.<sup>24</sup> Why was P & G slow to exploit opportunities abroad despite significant ownership advantages?

A broader puzzle still is why entrepreneurs in some countries appeared much more enthusiastic about pursuing international opportunities than those in other countries. It is well established, for example, that from the nineteenth century the firms of some small European countries such as Switzerland and the Netherlands were much more active internationally than those of other small countries such as Austria or Denmark. British firms have long demonstrated a much greater propensity to engage in foreign direct investment than have comparable firms.<sup>25</sup> Within Britain, Scots appear disproportionately present in British commercial ventures in Asia and elsewhere.

Entrepreneurial cognition, like the broader topic of entrepreneurship, is not new to economic and business history. We find the basic notion that individual cognition is important to the perception of opportunity in some of the earliest literature in economic history and sociology. Max Weber's thesis that religion and values affected individual cognition and outlook in ways that lead some (Protestants) rather than others (Catholics, Hindus, Confucians) more effectively to perceive and value economic opportunity remains a well-known and contested classic.<sup>26</sup> Subsequently, economic and business historians such as David Landes and Morris D. Morris used similar social categories—religion, ethnicity, culture, nationality—to, in effect, explore cognition issues such as why nineteenth-century French entrepreneurs apparently failed to pursue the same opportunities as their Anglo-American counterparts, or similar alleged failings of Indian entrepreneurs.<sup>27</sup> However, critics of this literature have long noted its broad generalizations and inaccurate stereotypes about national culture.

A more promising avenue taken by historical researchers of entrepreneurial subjectivity is to demonstrate how internationalization was influenced by language and geography, especially in the initial stages of a

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<sup>24</sup> Davis Dyer, Frederick Dalzell, and Rowena Olegario, *Rising Tide: Lessons from 165 Years of Brand Building at Procter & Gamble* (Boston, 2004).

<sup>25</sup> Jones, *Multinationals and Global Capitalism*.

<sup>26</sup> Weber, *The Protestant Ethic and the Spirit of Capitalism*.

<sup>27</sup> David Landes, "French Entrepreneurship and Industrial Growth in the Nineteenth Century," *Journal of Economic History* 9 (May 1949): 45-61; Morris David Morris, "Values as an Obstacle to Economic Growth in South Asia: An Historical Survey," *Journal of Economic History* 27 (Dec. 1967): 588-607.

firm's growth. During the nineteenth century, entrepreneurial firms often invested literally just over national borders. Swiss firms established factories in Germany and France within walking distance of the Swiss border—German-speaking Swiss firms in Germany, and French-speaking firms in France. Early U.S. investments in Canada were sometimes also just over the border.<sup>28</sup> As Spanish firms began to invest internationally from the 1980s, there was a disproportionate amount of investment in Latin America. Evidently linguistic and historical ties affected entrepreneurial cognition. Opportunities were perceived as greater, and risk less than elsewhere, even when they were not.<sup>29</sup> Portuguese entrepreneurs similarly focused on opportunities in Brazil and Portuguese-speaking Africa after 1980.<sup>30</sup> In a broader context, Jones and Lundan demonstrated using econometric techniques applied to a large dataset to show how trade and investment flows among members of the British Commonwealth (the former countries of the British Empire) were higher than might have been anticipated.<sup>31</sup>

While the tradition of considering the role of entrepreneurial cognition does exist among economic and business historians, the basic approach has been widely criticized. When contrasted to Chandlerian organizational studies and the New Economic History's econometric methods, historical studies based on the influence of mentality and culture on business have been lambasted for their broad (sometimes inaccurate) generalizations, weak causal links, and casual empiricism.<sup>32</sup> What, then, besides refinements in theory, may make it valuable for international business historians to reconsider the role of entrepreneurial cognition?

Advances in the cognitive psychology of entrepreneurship since the 1970s may allow business historians a more grounded and direct way of considering how cognition affected the internationalization choices of firms. Unlike the broad generalizations offered by the Weber-Landes-Weiner approach, the cognitive approaches we describe would employ a different set of methods and focus on a different level of analysis. These approaches are based on concepts developed primarily by cognitive psychologists and behavioral economists, and developed and tested in controlled experiments.

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<sup>28</sup>Harm G. Schröter, "Swiss Multinational Enterprise in Historical Perspective" in *The Rise of Multinationals in Continental Europe*, ed. Geoffrey Jones and Harm G. Schröter (Aldershot, U.K., 1993); Mira Wilkins, "European and North American Multinationals, 1870-1914: Comparisons and Contrasts," *Business History* 30 (Jan. 1988): 8-45.

<sup>29</sup>Pablo Toral, *The Reconquest of the New World* (Burlington, Vt., 2001).

<sup>30</sup>Ana Bela Nunes, Carlos Bastien, and Nuno Valerio, "Portuguese Multinational Firms, 1980-2003," paper presented at Association of Business Historians Annual Conference, Queen Mary College, London, 2006.

<sup>31</sup>Geoffrey Jones and Sarianna Lundan, "The 'Commonwealth effect' and the process of internationalization," *The World Economy* 24 (Jan. 2001): 99-118.

<sup>32</sup>D. C. Coleman and Christine Macleod, "Attitudes to New Techniques: British Businessmen 1800-1950," *Economic History Review* 39 (Nov. 1986): 588-611; B. Collins and K. Robbins, eds., *British Culture and Economic Decline* (London, 1990).

The employment of these concepts and methods in historical research involves major assumptions. First, there is a need to assume that basic processes of human decision-making remain relatively stable over time. In other words, we need to assume that it is valid to apply laboratory-based findings about economic decision-making to historical actors. Second, it is necessary to assume that we can use the evidence available to historians in diaries, letters, and minute books to test for systematic patterns in the subjects' economic decision-making. Some psychologists and economists have used personal diaries for similar research purposes. Finally, it is necessary to assume that the cognitive concepts tested by psychologists and behavioral economists on "everyday" economic decisions can be applied to bigger, historically significant decisions such as the choice of a firm to invest across borders. These are all heroic assumptions.

There are three cognitive concepts from psychology and behavioral economics that may prove useful in international business history research: heuristics, efficacy, and framing. We introduce these concepts and offer examples of how historians may be able to employ them to understand the role of entrepreneurial cognition in a number of research questions regarding multinational business and globalization. As with any interdisciplinary "borrowing," historians need to be especially cautious in applying concepts from another discipline to historical evidence.

Psychologists Amos Tversky and Daniel Kahneman most famously developed the concept of heuristics in economic decision-making.<sup>33</sup> Nigel Wadeson describes heuristics as "mental shortcuts that are used to reduce information overload, and yield quick decisions."<sup>34</sup> Kahneman and Tversky found that rather than basing economic decisions on analysis of the information available to them, people regularly assigned personally familiar mental categories or "rules of thumb" to an opportunity or a decision. These mental shortcuts or heuristics in turn resulted in systematic personal biases in how subjects made decisions that could not be explained by rational probability analysis of the information available to them. Tversky and Kahneman went on to describe and test several different kinds of heuristics that have shaped the development of behavioral economics and that may be useful to business historians as well. "Availability heuristics" refer to mental shortcuts in which economic actors base their chances of being successful, in part, on how easily they can imagine an outcome.<sup>35</sup> This, of course,

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<sup>33</sup> Amos Tversky and Daniel Kahneman, "Availability: A Heuristic for Judging Frequency and Probability," *Cognitive Psychology* 5 (Sept. 1973): 207-32; Amos Tversky and Daniel Kahneman, "Judgment Under Uncertainty: Heuristics and Biases," *Science* 185 (27 Sept. 1974): 1124-31.

<sup>34</sup> Nigel Wadeson, "Cognitive Aspects of Entrepreneurship: Decision-Making and Attitudes to Risk," in *Oxford Handbook of Entrepreneurship*, ed. Mark Casson, et al., 59-90.

<sup>35</sup> Tversky and Kahneman, "Availability: A Heuristic for Judging Frequency and Probability."

introduces biases into their decisions based on how easily they can picture an outcome based on their experiences and perceptions. Economic actors also use “representativeness heuristics” as a shorthand to categorize current decisions and opportunities based on what they perceive as similar situations. In both situations, personal experiences and perceptions intervene systematically to shape how economic actors make decisions.

Business historians may find a useful and empirically grounded way to introduce entrepreneurial subjectivity into the study of firm internationalization and globalization in part through studies of the kinds of heuristics actually used by firms and entrepreneurs. Consider, once again, the question of why Singer made early forays into Russia when other sewing machine companies with similar or better ownership advantages did not. Using minute books, letters, and other records, historians may be able to delve more deeply into how Singer’s entrepreneurial outlook was shaped differently from those of other firms by examining the kinds of heuristics employed in the decision-making process. What kinds of shorthand reasoning did sewing machine firms use to describe the Russian market opportunity, and what, if any, were the differences in the way Singer’s leadership did so in private meetings and correspondence? Text analysis techniques now allow historians to examine such questions not only qualitatively, but also to test their assertions using quantitative methods.

Similar techniques can be used to examine the creation of global trading linkages between Western firms and “middleman minorities” in the Near and Far East. The literature on the subject commonly refers to ways in which Western traders used shorthand constructs based on familiar examples in constructing trading relationships. For instance, Westerners sometimes referred to Parsis, Marwaris, and other South Asian minority intermediaries as the “Jews of India.”<sup>36</sup> Systematic studies of such “availability heuristics” may help us understand the extent to which such heuristics shaped decision-making and the creation of international linkages.

A second concept that may prove useful to historians interested in incorporating entrepreneurial subjectivity is the notion of self-efficacy. Studies using controlled experiments have revealed the importance of individual self-efficacy in determining if a subject interprets information from the market as an opportunity.<sup>37</sup> Subjects’ perceptions of their self-efficacy shape whether or not they interpret a development in the market as an opportunity they can exploit. One relevant finding is that organizations can nurture or suppress the perceived self-efficacy of their employees and managers. In other words, a firm does not necessarily need innately entrepreneurial individuals to have an entrepreneurial organization; rather, if

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<sup>36</sup> Christine Dobbin, *Asian Entrepreneurial Minorities: Conjoint Communities in the Making of the World-Economy, 1570-1940* (Richmond, Va., 1996).

<sup>37</sup> Norris Krueger, “The Cognitive Psychology of Entrepreneurship,” in *Handbook of Entrepreneurship Research*, ed. Zoltan J. Acs and David Audretsch (Boston, 2005), 105-40.

ordinary individuals perceive their firm as supportive and capable of innovation, then they themselves act more creatively.<sup>38</sup>

In the context of globalization, these findings suggest an interesting avenue of research for examining the ways in which employees' perceptions of their organizations (that is, their perception of organizational culture) more effectively developed the capability of their personnel to identify opportunities abroad. At a theoretical level, Mark Casson, who has argued that one of the key benefits of Western practical or technical education lay in an individual's ability to see the material world as controllable and rational, has already explored the notion that perceived self-efficacy in a particular environment affects entrepreneurship.<sup>39</sup> Hence, both psychological research and entrepreneurship theory emphasize the ways in which organizations and institutions shape (often, through training and education) whether individuals interpret information in ways that are considered personally exploitable and subject to favorable manipulation—that is, in ways that enable participants to be “alert” to them as economic opportunities.

In historical perspective, these studies suggest that there may be value in considering whether firms (and countries) that developed and nurtured the self-efficacy of individuals to pursue international opportunities benefited by the individuals' likelihood of seeing foreignness as less fixed and uncontrollable and more subject to manipulation. For instance, did employees and managers at Unilever and Colgate somehow view their organizations as supportive and capable of pursuing economic opportunities in foreign markets, while those at P & G did not, regardless of the firm's innate ownership advantages? There may be particular value for historians in examining both formal and informal training and systems at the national and firm level to see what they tell us about how they prepared individuals to understand distant opportunities and contexts as controllable. We could consider hypotheses about the ways in which certain firms or countries promoted internationalization as a practical opportunity or an unfamiliar threat. One might explore, for instance, whether P & G's policies and managerial actions constructed a view of international markets as more fundamentally threatening or uncontrollable than did those of Unilever.

Finally, a third concept that may prove useful is “framing.” Wadeson defines framing as “the way in which a decision-maker is presented with, or perceives, a decision problem.”<sup>40</sup> He offers the example of telling an economic actor that he or she has a 55 percent chance of winning an economic bet, versus telling another the chance is 45 percent chance of losing the identical bet. Despite the fact that the bets are identical, studies have

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<sup>38</sup> Mariann Jelinek and Joseph A. Litterer, “Toward Entrepreneurial Organizations: Meeting ambiguity with engagement,” *Entrepreneurship Theory and Practice* 19 (Spring 1995): 137-68.

<sup>39</sup> Mark Casson, *Entrepreneurship and Business Culture: Studies in the Economics of Trust*, vol. 1 (Aldershot, 1995).

<sup>40</sup> Wadeson, “Cognitive Aspects of Entrepreneurship.”

shown that subjects are much less likely to accept the bet for a negatively framed decision. Other studies have shown that participants faced with identical situations react differently based on the framing of the situation as a threat or an opportunity. Researchers can develop such frames either passively, based on assumptions, or tactically, to shape the decisions of others.

Analyses of the framing of internationalization decisions may be useful to historians in many ways. One significant approach may be to use framing to see if firms reacted to major historical developments as threats or opportunities. For instance, Standard Oil of New Jersey (SONJ) made significant investments in Russia and Mexico in the 1910s despite a clear possibility of expropriation. Historians might examine precisely how SONJ framed these decisions. Did other oil majors frame these decisions (and the political risks involved) differently?

The introduction of entrepreneurial cognition into studies of how firms internationalize does not overturn the theory of ownership, location, and internalization advantage in explaining the development of multinationals so much as it helps us understand how individuals operating in extremely dynamic and uncertain environments actually enact such factors. It suggests that entrepreneurial subjectivity cannot explain the systematic effects on internationalization and evolution of global capitalism by ownership, location, and transaction costs alone. At a more fundamental level, it also draws attention to individuals as well as firms as critical units of analysis. Although there may be a temptation to anthropomorphize firms, such subjectivity is clearly embedded in individuals, not organizations.

### **Assembling Resources**

Historians of international business may also be able to draw on recent management research that examines the special challenges that entrepreneurs face in assembling resources for their ventures. This research rests on the concept that entrepreneurs face unique circumstances in attempting to assemble resources (capital, labor, supplies) against the promise of creating uncertain businesses in the future. Entrepreneurs face the challenge of convincing the providers of resources to contract with them precisely because of the uncertain nature of an innovative endeavor. They do so with little or no direct evidence that the venture will actually work, that there will be a future market, or that they will not misallocate the resource. One scholar has described the problem of assembling and valuing resources in the context of raising capital: “[E]ntrepreneurs seeking funding [believe] they are selling U.S. Treasury bills while investors [fear] that they are buying pre-Castro Cuban government bonds.”<sup>41</sup>

All managers, of course, face some uncertainty about resource allocation and if this allocation will translate into expected productivity and

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<sup>41</sup> Sharon Gifford, “Risk and Uncertainty,” in *Handbook of Entrepreneurship Research*, ed. Acs and Audretsch, 37-54.

competitiveness. However, according to management scholars, the levels and types of uncertainty regarding the management of the production function of a going enterprise differ substantively from the entrepreneurial challenge of convincing suppliers of resources that a viable future production function exists. Sharon Alvarez has extended strategic resource-based thinking about the firm, showing how ambiguity over the exact source of a firm's core competencies are further complicated in entrepreneurial situations by the lack of a clearly established production function in innovative situations.<sup>42</sup>

A growing literature in management, finance, and sociology attempts to examine how entrepreneurs assemble resources given these uncertainties. Much of the literature on private equity and venture capital, for instance, highlights how entrepreneurial finance involves special kinds of contracting designed to mitigate the problems of uncertainty and to overcome information asymmetries between financiers and entrepreneurs. Paul Gompers and Josh Lerner, among others, have shown how venture capital firms seek to deal with these issues through the structure of their securities, the staging of investments, appropriate screening and syndication, and by providing on-going advice and monitoring as the entrepreneurial opportunity is exploited.<sup>43</sup> Work on the organizing process of new firms highlights the many stages of new organization creation that entrepreneurs go through, often using the completion of one stage to gain credibility to obtain resources to carry out the next stage.<sup>44</sup> In addition, sociologists have emphasized the ways in which new firms mimic well-established ones in order to gain the "legitimacy" needed to acquire other resources.<sup>45</sup>

Business historians have considered the assembly of resources in detail in only two instances. The first is the growing body of research on freestanding companies and business groups. During the nineteenth century, thousands of British and hundreds of Dutch and other European companies were formed exclusively to operate internationally with no prior domestic business. The period between 1870 and 1914 saw particularly rapid levels of firm creation. They were international venture capitalists, exploiting the numerous opportunities of the booming world economy and of expanding imperial frontiers.

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<sup>42</sup> Sharon Alvarez, "Resources and Hierarchies: Intersections between Entrepreneurship and Business Strategy," in *Handbook of Entrepreneurship Research*, ed. Acs and Audretsch, 247-66.

<sup>43</sup> Paul Gompers and Josh Lerner, *The Venture Capital Cycle* (Cambridge, Mass., 2000); Paul Gompers and Josh Lerner, "Equity Financing" in *Handbook of Entrepreneurship Research*, ed. Acs and Audretsch, 267-98.

<sup>44</sup> William Gartner and Nancy Carter, "Entrepreneurial Behavior and Firm Organizing Processes," in *Handbook of Entrepreneurship Research*, ed. Acs and Audretsch, 195-222.

<sup>45</sup> Howard E. Aldrich and C. Marlene Fiol, "Fools Rush In? The Institutional Context of Industry Creation," *Academy of Management Review* 19 (Oct. 1994): 645-70; Mukti Khaire, "Great Oaks from Little Acorns Grow: Strategies for New Venture Growth," *Academy of Management Best Paper Proceedings*, 2005, CD-ROM.

Typically, legal incorporation of a freestanding company was in its home economy. There would be a small head office where a part-time board of directors met, supported by a handful of other clerical staff. The company usually specialized in a single commodity, product, or service, often in a single overseas country. Such businesses were predominantly located in the natural resource and service sectors, occasionally in processing. Most freestanding companies invested in developing (including colonial) countries, although many British freestanding firms were formed to conduct business in the United States. Three-quarters of the two hundred Dutch freestanding companies active in 1914 operated in the Dutch colony of Indonesia (then known as the Dutch East Indies).<sup>46</sup>

Mira Wilkins has shown how these nominally independent freestanding companies were often part of wider business networks.<sup>47</sup> “Clusters” linked different firms around original promoters, financial intermediaries, lawyers, accountants, mining engineers, merchant banks, trading companies, and influential individuals. In some cases, freestanding firms were components of business groups centered on British (and to a lesser extent, Dutch) trading companies active in Asia, Latin America, and Africa. Typically, parents held some amount of equity in these companies, sometimes as low as 1 percent, but there were multiple linkages based on debt, contracting, and cross-directorships. These “clusters” thus created a network that provided access to resources, monitoring, and advice as new opportunities were exploited. This stream of literature offers a great deal of potential for searching for systematic patterns of relationships and contracts in how entrepreneurs assemble resources in different industrial, home country, and chronological environments.

The emergent diaspora literature also has much to contribute to the resource assembly issue. Networks of entrepreneurs within such diasporas, including Jews, Greeks, Indians, Arabs, Chinese and others, have created a large portion of new international market development over the last two centuries. Research on the history of international business has made significant progress in identifying the role of diaspora networks in enhancing trust levels and creating conduits for information and resources among its members, in turn reducing barriers to trade over long distances. Diasporic links clearly facilitated the flow of information and credit and helped guarantee the enforcement of contracts among members.<sup>48</sup>

In contrast, there is surprisingly little work on the assembly of resources within larger firms that made multinational investments over the past

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<sup>46</sup> Ben P.A. Gales and Keetie E. Sluyterman, “Outward Bound: The Rise of Dutch Multinationals” in Geoffrey Jones and Harm G. Schröter, eds., *The Rise of Multinationals in Continental Europe* (Aldershot, U.K., 1993), 65-68.

<sup>47</sup> Wilkins, “An American Enterprise Abroad.”

<sup>48</sup> Ina B. McCabe, Gelina Harlaftis, and Ioanna P. Minoglou, *Diaspora Entrepreneurial Networks: Four Centuries of History* (New York, 2005); Dobbin, *Asian Entrepreneurial Minorities*.





















