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SOME OBSERVATIONS ON THE NECESSITY FOR RETAINING
AMERICANS ABROAD IN RESPONSIBLE CHARGE OF AMERICAN
INTERESTS.

Developments in the last three or four years in various parts of the world have indicated the increasing importance of retaining Americans abroad in responsible positions in order that American interests and American capital may be adequately protected. There has been a growing tendency, particularly recently, to withdraw Americans from the foreign field where they have been in responsible charge of American interests, and to replace them with either natives of the country in which the interest is found or with other persons of foreign birth and background. This process has gone so far already that there is reason to believe that our interests and capital in foreign countries do not have that direct, responsible, objective, and national management everywhere which prudence and adequate protection makes desirable.

The fact that we are not lending any money abroad for the present, that our existing interests in foreign countries are still contracting, and that on the whole the interest of our people in foreign investments is much smaller than it has been for years, has led even leaders of business and opinion to pay less attention to this movement than circumstances require. It is during a time like the present that the most careful consideration should be given by leaders of industry and finance to having definite recognition given to the

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principle that the management and protection of our interests abroad requires that they be under the responsible supervision of native Americans. Some of the more pertinent considerations in this respect will be brought out in this memorandum.

Already before the War considerable American capital had been invested in foreign countries, but for the most part in companies in which the principal interest was foreign and the management of which remained in foreign hands. As the American capital invested usually represented a minority interest, direct management by Americans did not and could not come into consideration except under very exceptional circumstances, and then usually on technical considerations. It was customary, however, for the American interest concerned, depending upon the volume of the investment, to have either a responsible American on the spot to look after this interest, or to have someone from the United States make periodic visits in order to secure first-hand information as to the status of the investment.

Already before the War also a number of American firms had established import and export houses in various commercial centers abroad, and these were almost invariably headed by an American. The post-war stimulation in export and import trade brought about a very considerable increase in the number of these firms, and also led to rapid expansion in the size and importance of those already existing. In practically all of these firms it was found advisable to have at least one American as the responsible head, and during the post-war development

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ment it was found desirable in a number of these import and export firms abroad to have Americans in some of the major subordinate positions, more particularly in charge of certain of the more important departments.

Although a few companies had established branch manufacturing plants abroad before the War, the number of branch manufacturing plants before the War was comparatively small. These were invariably in charge of Americans, and in order that American manufacturing technique might be employed to advantage in these plants, a very considerable technical staff of American engineers, and in some cases of skilled foremen and workmen, was found fundamentally desirable. As is well known, one of the principal features of our post-war commercial expansion was the rapid increase in the establishment of American branch factories abroad. The relatively higher standard of living in the United States, with higher wages and generally higher overhead costs made it necessary for a considerable number of American firms to establish branch plants in important consuming or distributing areas abroad. This movement was also accelerated by the rapidly developing demand for certain American products abroad, such as automobiles, typewriters, adding machines, electrical equipment, and other specialties. By the increased difficulties placed in the way of trade through post-war tariff protection, highly nationalistic trade policies, and other well known factors, the establishment of branch manufacturing plants became a necessity in certain cases to keep American goods on the foreign market.

Almost invariably where these manufacturing plants
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were established it was found advisable to have an American manager and American engineers and technical assistants. In many of the larger establishments most of the heads of division were Americans. This was deemed essential, not only because it was American capital which was invested in the firm, but because it was found advantageous to have American factory methods and technical skill in order to maintain the quality of the product manufactured abroad equal to that produced in the parent plant in the United States.

The American investment bankers, export and import firms, and manufacturing establishments who thus safeguarded their interests abroad by placing them for the most part in the hands of Americans were only following the practice of the English, the Germans, the French, and the Belgians, who were pioneers in this field. It has been the invariable custom of these countries to place their foreign establishments in the hands of their nationals, and to safeguard their foreign investments by sending trained and trusted nationals to look after them. Wherever the English have built railways, as, for example, in the Argentine, the managing director has, from the outset, been an Englishman, and the ordinary major personnel was and has remained English. The technical and administrative divisions have remained in English hands. British bankers are represented abroad by native Englishmen. British export and import houses throughout the world are headed by their own nationals. This principle has been almost invariably carried through by every European country with long experience in this field. In the enterprises controlled by the capital of

some other countries they have gone so far as to send out minor personnel. Besides training young men in the parent establishment at home, selected individuals have been sent to the offices and establishments abroad in order that they may learn the business and prepare themselves for responsible positions. This tradition has been maintained by practically every country having capital investments abroad except by the United States, where our interests have shown no uniform policy, and more lately seem to be departing from the European tradition entirely, in spite of the fact that that tradition is based on longer experience.

With the decreasing post-war trade which set in in 1928 and 1929 many of the American firms which had established themselves abroad found it necessary to cut down their foreign establishments. In order to reduce overhead costs, Americans were withdrawn from the foreign organization and their places filled by foreigners, usually by nationals of the country, who were willing to work for smaller compensation. The development of nationalistic sentiment in various countries, which became so marked immediately after the War, but which was even more accentuated at the outset and during the continuance of the depression, led a number of American firms to replace practically their entire American personnel with natives of the country, believing that in this way the identity of the firm as a foreign one would be partially concealed or at least not so apparent to the general public and the position of the firm in the foreign country therefore correspondingly strengthened. That this movement was a natural one and that in certain cases it was a desirable

a desirable one from the point of view of the immediate interest of the firm cannot be gainsaid, but that in the long run it will have a weakening effect on the position of these firms is clear.

There are factors in this problem of foreign representation which cannot be overlooked by the wise and farseeing and cautious business man. Some of these factors are psychological and of a character which only long residence abroad and a clear understanding of all the facts involved will make apparent. The most important of these factors is probably that of nationality. Experience throughout the entire foreign field has shown that in ordinary times when everything is going well an American interest is fairly safe in the hands of a national of the country or of someone who is not an American citizen. The questions to be decided are those of ordinary business policy, in which national and personal allegiance does not play so important a part. When, even in normal times, a particular business man passes through a difficult period, or when the general situation in the country is difficult, or, as is now the case, when the situation everywhere is complicated, these national allegiances play a very important part. Concrete instances are not lacking of a responsible manager of an American interest, who happened not to be an American, having been influenced in his local action and what he said to his parent company in the United States by this conflict of national interests. Sometimes one may have the impression in these concrete instances that the conflict of interests was an unconscious one and that the responsible manager was not consciously failing to give

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full and faithful service to his American principal. In other cases, however, it was quite clear that the conflict of national interests played a conspicuous and definite part in the reaching of major decisions.

In this connection there are important considerations with respect to naturalized Americans which cannot be ignored. Anyone who has observed the work of naturalized Americans in various parts of the world on behalf of American interests must have for them the highest respect and regard, for in many instances they have rendered useful and invaluable service. Experience in times of peace has shown that the great mass of naturalized Americans within our country are not only content to enjoy the privileges and opportunities which the adopted country offers them, but are also willing to advance the interests of their adopted country by earnest labor, constructive genius, and patriotic effort. In times of war they have been willing to share with patriotic fervor in all sacrifices and extra effort. In the same way without the frontiers of our own country naturalized Americans have been employed in important positions with excellent results by American interests. Their knowledge of languages, foreign customs, and conditions in various parts of the world has frequently been used to advantage by American firms and in the protection of American interests. Nothing in this memorandum therefore is intended to minimize in any way the faithful and intelligent effort of naturalized Americans who have served our interests abroad.

There is, however, to those who have had wide experience and ample contact with our problems abroad,

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evidence to show that under certain combinations of circumstances naturalized Americans have been in charge of important American interests who lacked that complete and undivided attachment to their adopted country which is necessary when business is bad or in times of political stress. It is well known that for the natives of certain countries it is more difficult to give up their original allegiance more completely than it is for others. Experience, for example, has shown that, although the English are the least prone and the slowest to assume a new nationality, they can almost invariably be depended upon to give complete loyalty to the country of their adoption in even the most difficult times. A naturalized Englishman in charge of an American interest, if he should find any clash of allegiance or any struggle within his own conscience, will, if he is the sort of person who would be placed in charge of an important interest, make the sacrifice of resigning before committing any breach of loyalty. On the other hand, experience has shown that the Germans have little prejudice against assuming another nationality and are very quick to become naturalized, but if they are intelligent and very capable persons of the type who would ordinarily be placed in charge of a responsible American interest abroad they are more likely to be influenced by their former allegiance. There is no attempt in this comparison to cast any aspersions on those Americans of German origin who have contributed so much to our country and its interests, but it must be recognized on the basis of experience that in times of stress naturalized Germans have shown that their original

original allegiance may prevent them from giving that full loyalty to an American interest which the trust placed in them demands. It may be said that this is more particularly true when the naturalized German may be representing an American interest in his former country.

In the post-war years American investors were led into placing large sums of money in various parts of the world. If an examination were to be made of the background of the men who made the investigations on which the banking houses based high issues, it would be found that a very considerable number of them were not native born Americans. That our banks of deposit and our investment banking firms in the United States should have employed so large a percentage of foreign born representatives, is understandable. A demand was very quickly created for a considerable number of foreign banking representatives, and our own experience in the field was restricted and brief. We had not been training people for these positions, for which men with a certain knowledge of foreign countries and languages were essential. That persons other than native born Americans should be employed in considerable numbers, is understandable, but the disastrous results of our experience as a lender abroad make it at least worth while to consider all of the elements which may have contributed to the disaster. A wiser policy, even under the circumstances which existed, would have been that which has been invariably followed by English, French, Belgian, and Dutch banking firms. Although these may avail themselves of the services of foreigners for particular purposes,

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they make it an invariable practice to have one of their own nationals on the spot in final control. The question as to whether certain things are to be done or not is a matter of judgment, as well as of facts. For fact finding purposes foreigners may be essential, and certainly useful, but American interests will not be adequately protected until abroad, as well as in the home offices, all the facts and circumstances will be coordinated and final judgment passed thereon by an American.

During the period of the depression there has been a tremendous contraction in the capital value of our investments abroad, as well as in the volume of our foreign trade, and in the activity of American firms beyond our borders. The activity of our import and export houses has been greatly contracted, and a good number have passed completely out of existence. The interest on our foreign loans for the most part is not being paid, and provision for amortization is not being made. The capital value of our foreign loans and investments has tremendously shrunk, and there is much reason to believe that a very considerable part of the money which our saving public in the United States was led to invest abroad has already been liquidated at a very considerable loss and that a good part of the remainder will remain indefinitely in default. Many of our manufacturing plants in various parts of the world have been closed, the capacity of others has been greatly reduced, and activities previously spread over a number of foreign centers consolidated in one place. This has inevitably led to a natural contraction in the

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number of Americans representing our interests abroad. But a curious and significant development out of this situation is the increasing tendency already referred to in this memorandum to place foreigners in charge of our remaining interests.

It is not possible within the scope of this memorandum to go into details and to give specific examples. It will be necessary to restrict this memorandum to the statement of tendencies as indicated by the available facts, which are so well known as not to require re-statement here. As indicative, however, of the situation, the instance may be cited of one well known American company, the capital of which runs into many millions of dollars and which has many thousands of stock-holders scattered all over the United States. It is, to all intents and purposes, an American company and is considered at home and abroad as such. It is engaged solely in the operation of a public utility in various countries of the world and in the manufacture of material intended for these utilities owned or operated by the company and for other similar ones to which it may be able to sell abroad. Its factories are found in Europe, in South America, and in the Far East. These factories were built up, with very few exceptions, through the initiative and genius of American management and American technicians. The foreign business of the company, both in the operation of its utilities and in the production of material for them, is based entirely on American management and American service technique, and on American technical research and skill. Those familiar with the operations of this company can easily remember

remember the time when the management and principal engineering staffs of the foreign branches and foreign plants were almost entirely American. They can easily remember the time when, not only the local manager of every plant, but also the principal departmental heads, as well as the principal engineering staff were Americans.

In this company within the last few years what may be called a complete revolution has taken place with respect to personnel. In one country where it operates a factory still employing about three thousand workmen the entire management now is foreign, and there is only one American in the entire organization and he occupies a subordinate engineering position. In another country where the company operates a manufacturing plant, which at its highest capacity about four years ago employed some twelve thousand men and which still has over three thousand employees, only one American is now left in the plant as general manager, and the question of replacing him with a native of the country has been seriously considered. When this plant was operating at its highest capacity and during the previous years which led up to its becoming the principal American manufacturing plant abroad there were at least four or five Americans in charge of its administration, and there were always a number of American engineers directing the technical staff. The other manufacturing plants of this company in various parts of the world are, for the most part, now in charge of foreigners, and the withdrawal of Americans from the foreign organization is still in progress.

The head of this great company is a man of extraordinary genius as a promoter and as an administrator,

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and it has been through him that the present far-reaching organization of this company has been developed. Of his capacity there can be no question. Although not born in the United States himself, he is an American citizen, and of his complete Americanization and devotion to the interests of our country there can be no question. Yet the fact remains that it is through his influence and primarily as a result of his policies that the withdrawal of the Americans from this great American controlled enterprise abroad has taken place. He believes that in this time of stress, economic depression, and extreme nationalistic movements the property of the company will be best protected and its manufacturing interests best promoted by a partial concealment of the American identity of the foreign plant from the general public and by meeting the popular sentiment which prevails in so many countries that home industries should be controlled and operated by natives of the country. That this sentiment does exist in practically every country of the world cannot be disputed. Even in a country where liberal ideas are, fortunately, still so entrenched as in England, the admission of foreign workmen and technicians has been surrounded with such difficulties as to make the employment of foreigners extremely difficult.

That these conditions, however, exist in various countries does not necessarily mean that an American owned company abroad gains in prestige or furthers its real interests by completely turning it over to foreign managers and personnel. As the countries in which such American interests may be located themselves insist, as

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a matter of basic policy, in having their own nationals in the plants and interests which they have beyond their borders, they may be depended upon in the final analysis to show an understanding attitude to American capital insisting on maintaining a controlling interest over American investments abroad.

The manufacturing plants owned by this particular company were for the most part built up over a long period of years, and some of them date well back before the war. Practically all of them owe their position in the foreign market in which they operate to American management and to American engineering skill. To take away this management and this engineering technique leaves in the company only the American capital, and, even though the capital itself may be safe in foreign hands, it is a question as to whether these plants will be able to hold their hard won business in the hands of foreign management. It was American management, technique, and skill, and not merely physical plant and capital, which led to their successful operation.

The inevitable result of placing foreigners in charge of American enterprises abroad is to definitely weaken their position. In the case of our banking interests, the American investing public, we may reasonably be sure, will never in the future feel secure unless our investments abroad are more carefully gone into and protected by Americans rather than by banking representatives of foreign origin and background. The very nature of the export and import business is such now, and will be so even in the future, that in a business of any importance or real significance the American firm will be obliged

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to have native American representatives abroad for the proper protection and furtherance of its interests. The American manufacturing plants abroad have been built up almost entirely on the basis of American management, technique, factory methods, and engineering skill, and if these plants are to be run by foreigners they will gradually lose all American identity. A Belgian, a German, or an Englishman in responsible charge of an American owned factory abroad may endeavor to run it along the lines laid down by the parent company. It is almost a certainty, however, that, even though he may have some familiarity with American factory methods, the plant will gradually be run on foreign lines. And if he is an American by naturalization only experience has shown that he cannot be depended upon at all times for undivided and complete loyalty to the parent firm and to American methods.

There is, for example, in Germany a manufacturing plant owned by an important American interest. This plant is American in every sense of the word physically, as it was constructed on purely American lines. While this company was building up its business and before the new plant was completed the managing director and a fair number of his principal assistants were Americans. The general manager is a naturalized American of German origin. He is a man who has risen from the ranks and is undoubtedly a person of many good qualities. As long as he had American associates in the plant, American factory methods and management principles dominated the factory and the activities of the company. Since he remains in sole charge of the plant with all direct American influence removed, except through contact with the home office, "

there is ample evidence that this naturalized American is far more German than American, and aside from the purely physical structure of the plant, it is becoming practically foreign in its management and operations. The capital invested in this concern runs into many millions of dollars. The American parent firm, whether it realizes it fully as yet or not, has really placed its entire foreign investment in this country in the hands of a naturalized American who is a native of Germany and who has on various occasions shown that his allegiance to his native country is much more deeply seated than that to the country of his adoption. There is no intention to call into question the honesty and the sincerity, nor even the capacity of this manager. It is simply a plain statement of fact that the American company must reckon that it has placed its investment almost completely into the hands of one who is a foreigner. It is too much to expect a foreigner of such background in times of stress, such as these in Germany today, to give to his principals the unbiased information which they need and the proper advice as to policy for the long run which the circumstances may require.

The question as to how far American firms should go in placing Americans abroad in particular companies owned or controlled by them is one which cannot be an ironclad one regulated by any absolutely ironclad rule. The circumstances surrounding the particular business and the conditions prevailing in particular countries must determine the policy in specific instances. It may, however, be stated as a general principle that the managing director or the final responsible head abroad should

should be an American, and where this is possible, a native born American. There are undoubtedly exceptions when a foreigner or a naturalized American may be placed with confidence in charge of an American interest abroad, but these instances should represent the exceptions to an otherwise generally accepted principle. As it is now, we seem to be following just the reverse policy. English, French, Belgian, German, Dutch, and almost all foreign interests needing representation abroad invariably follow this rule of having at least the principal responsible representative one of their own nationals. These have all been in the business longer than we, and some of these countries have interests abroad as widely spread and as important as ours, and often of the same character. They have found no reason to change their long accepted practice, and there is no adequate ground to base safe American practice on any other policy.

As to how far American firms should go with respect to major subordinate personnel, is a matter which is open to some difference of opinion. Most nationalities other than the English and Germans are fairly free in employing natives of the country and other nationals in major subordinate positions. The English and the Germans cling to their primary policy, making practically the whole management structure British or German. For this, they have been subject to certain criticism in a number of countries, and there is reason to believe that in a few countries English and German interests have suffered somewhat locally by too strict adherence to the policy of employing only nationals. The consensus of opinion seems to be that if the manufacturing plant or the interest

interest concerned is important, the manager should be supported by at least several nationals in major administrative positions. It may be advisable in particular instances for the manager or for these major subordinates to remain somewhat in the background and to push forward for the local contact a native of the country associated in the management, but this is a question concerning which there can be no general rule and which the particular circumstances of the business or the conditions in the country control.

The name of an American company abroad need not necessarily be similar to that of the company at home. There is often no particular gain or loss in prestige in the use of the name of the parent company. This depends purely on circumstances in particular instances which will determine policy, but it may be stated that in the end very little is gained, and certainly not in the long run by endeavoring to hide the identity of a company through a name or through native management.

In American owned utilities abroad and in American owned factories the retention of American factory methods, so far as local circumstances permit American management methods and the use of American technical and engineering skill, is essential if the American plants abroad are to maintain their position. For this reason, the retention of American technical and engineering elements is as essential in American owned foreign plants as is American management, and one of the greatest misfortunes which can befall us is further progress in this withdrawal of such technicians from abroad.

This withdrawal of Americans from abroad has caused

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less concern to thinking people at home in the difficulties through which we are passing than it ordinarily would and that the circumstances require. This indifference has been due very largely to the fact that for the time being we are rather disinterested in the United States in foreign investments and property. This, however, is only a temporary situation. We shall continue to create capital which will eventually seek a foreign outlet. There are no fundamental reasons to believe that we shall not again be interested in foreign investments. A good many countries will continue to welcome, not only our capital, but also our factory management technique and engineering skill. The United States still has a very important part to play and we will not only contribute in this way to the development of other countries, but we shall again benefit by returns in various ways on our capital and investments abroad.

But the extent to which we shall benefit and the extent to which we can benefit others is very largely dependent upon our following a policy of placing our interests abroad in the hands of Americans. The experience of the post-war years has definitely shown that if American capital ventures abroad it can only be on the basis of careful investigation and advice by Americans, and that these interests once established will continue to be looked after by Americans of undivided allegiance. The boards of directors of our banks and of our great manufacturing companies with interests abroad must see that this policy is made an American one and a definite one.

November 3, 1934.