

**Managing Political Risk in
Global Business:
Beiersdorf 1914-1990**

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Managing Political Risk in Global Business:

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Abstract

This working paper examines corporate strategies of political risk management during the twentieth century. It focuses especially on Beiersdorf, a German-based pharmaceutical and skin care company. During World War 1 the expropriation of its brands and trademarks revealed its vulnerability to political risk. Following the advent of the Nazi regime in 1933, the largely Jewish owned and managed company, faced a uniquely challenging combination of home and host country political risk. The paper reviews the firm's responses to these adverse circumstances, challenging the prevailing literature which interprets so-called "cloaking" activities as one element of businesses' cooperation with the Nazis. The paper departs from previous literature in assessing the outcomes of the company's strategies after 1945. It examines the challenges and costs faced by the company in recovering the ownership of its brands. While the management of distance became much easier over the course of the twentieth century because of communications improvements, this working paper shows that the costs faced by multinational corporations in managing governments and political risk grew sharply.

Keywords political risk, multinationals, expropriation, trademarks

Managing Political Risk in Global Business: Beiersdorf 1914-1990¹

The Management of Political Uncertainty

As firms began making direct investments on a substantial scale during the second half of the nineteenth century, by far the greatest challenge was to create managerial structures which operated effectively over substantial geographical distances. Chandler's classic analysis of the growth of managerial hierarchies, and Wilkins's pioneering studies of the first generation of US multinationals before 1914 were among the building blocks of the large literature exploring how these managerial innovations were constructed.² Subsequent research showed how the European equivalents of these pioneering multinational firms often opted for socialization strategies of control in preference to managerial ones.³ In contrast to the challenges posed by physical distance, those posed by politics and governments were much less formidable. Although exporting strategies were disrupted by tariffs, government for the most part imposed few restrictions on firms because of their nationality. The spread of Western imperialism and the aggressive imposition of Anglo-Saxon property law on most of the world first by Great Britain, then by the United States, more or less ensured an open field for most Western businesses seeking markets or minerals in the world.⁴

The era of high receptivity to foreign business changed dramatically after the outbreak of World War 1. Both sides expropriated the corporate assets of firms located in enemy countries. In 1917 the Communist Revolution in Russia resulted in the expropriation of all foreign property. During the interwar years the spread of nationalistic and fascist regimes meant further

hostility to foreign firms. Subsequently the further spread of Communism, and the policies of newly independent post-colonial governments, resulted in further expulsions or hostility towards foreign firms. In the broadest sense, the management of distance was replaced by the management of governments as a central challenge faced by firms. Business historians and political scientists have begun to explore how firms responded to these growing political risks. It has been shown that corporate strategies ranged from seeking to build strong local identities to divert nationalistic pressure, to participating in coup's to overthrow foreign governments perceived as hostile.⁵

The peculiarities of twentieth century German history meant that German-owned firms were especially vulnerable to political risk.⁶ Two World Wars and four fundamentally different political systems, including the Nazi regime (1933-1945), meant that German firms were exposed in an extreme fashion to the impact of politics and governments on business. Their resulting strategies, especially during the Nazi era, have been examined in detail in studies of Schering, IG Farben, Bosch, Deutsche Bank and other firms. It has been shown in particular that many firms devised elaborate organizational structures for their international businesses, which were designed to circumvent real and potential hostile governmental interventions.⁷ They were not alone. Even Swiss companies such as Roche and Nestlé, despite their neutral and politically stable home country, opted in the interwar years to place their international businesses in separate affiliates located variously in Panama, Lichtenstein, and the United States, often for taxation reasons, but also because of concerns about political risk.⁸

A number of historians have termed the German strategies "cloaking". Cloaking has been defined as "the art of concealing the true ownership of a company from authorities."⁹ There has been considerable debate about the intentions of such "cloaking" activities. In a strongly

ideologically-influenced account, based on the investigations by the Allies after World War 2, some researchers have seen cloaking as one element of businesses' cooperation with the Nazis. They have argued that German firms camouflaged their foreign assets in an attempt to improve Germany's economic position and ultimately to help the Nazis pursue their political goals.¹⁰ This strategy has been seen as supported by the Nazi government. Cloaking has, therefore, been seen as one element of the Nazi government's economic preparations for war.¹¹ The same argument has been made by some studies dealing with neutral countries that profited from Germany's cloaking activities, and thereby directly or indirectly supported the Nazi government.¹²

This interpretation has, in turn, been contested by researchers including Koenig, Kobrak, and Wuestenhagen, who have identified commercial reasons behind such cloaking activities.¹³ They have argued that German firms used cloaking as a technique to reorganize their business,¹⁴ to avoid taxation, to facilitate the circulation of capital and material between countries, and to protect assets from interference by foreign governments.¹⁵ Attempts by German companies to hide their assets abroad from their own government, in particular during the Nazi regime, have received limited attention so far.¹⁶ Most insightful in this respect are the contributions in a volume edited by Kobrak and Hansen.¹⁷

While the intentions of cloaking have been debated for companies as diverse as Schering, Bosch, Krupp, Siemens, and Deutsche Bank, there is surprisingly little evidence on the question if and how organizational designs worked in the challenging business environment of wars, foreign exchange controls and expropriations. Kobrak and Wuestenhagen stress the importance of Swiss holding companies that were placed in the hands of trustees who pledged to return the shares.¹⁸ The success or failure of these cloaking strategies after World War 2, however, has hardly ever been a topic in research.

This working paper explores these issues using new evidence on Beiersdorf, a leading pharmaceutical and skin care company in Germany that found itself especially exposed to political risk for two major reasons. First, its Jewish ownership and management meant that it faced considerable threats both abroad, as a German company, and at home during the Nazi era, as a Jewish company. Second, the firm's main competitive advantage lay in its brands and trademarks. The transfer of such intangible assets to other companies posed a major challenge which was potentially much more serious than the loss of physical properties through expropriation. Section 2 explores how the firm's loss of assets during World War 1 shaped its future strategies towards risk management. Section 3 shows how the firm sought to respond to political risk in both its home and host economies during the interwar years. The firm's reliance on trust as a managerial tool is particularly striking. Section 4 departs from the previous literature by exploring the results of the firm's cloaking strategies during the post-war decades.¹⁹ Section 5 concludes, and discusses the implications of this research for wider debates on corporate responses to political risk.

The Early Years of the Ring: Learning About Cloaking (1918-1938)

German utility companies had established holding companies in Belgium and Switzerland during the two decades before 1914, primarily for capital-raising and fiscal reasons, and sometimes with the explicit wish to make their ventures look, for example, "Swiss."²⁰ In the aftermath of wartime expropriations, many other German companies began exploring the opportunities of "cloaking".²¹ Beiersdorf, founded in Hamburg in 1882, was no exception. The company was built on the invention of a new type of medical plaster, or band-aid as it is more commonly known in the United States, by the pharmacist Paul Beiersdorf and the physician Paul Unna. In

1882, they received a patent for their innovative band-aids using gutta-percha, a form of natural latex produced from tropical trees, which made the band-aid resistant to the skin's moisture. In 1890 Paul Beiersdorf sold the small manufacturing business for family reasons to Oscar Troplowitz, a young Silesian pharmacist who was financially supported by his uncle and father-in-law to be Gustav Mankiewicz. In 1906 Oscar's brother-in-law Otto Hanns Mankiewicz became a partner in the firm.

Oscar Troplowitz expanded the business and its range of products. He was savvy in marketing and distribution, and had a talent for brand-building.²² In 1905 he developed one of the world's first commercial toothpastes and branded it Pebeco. The toothpaste developed quickly into Beiersdorf's bestselling brand. This laid the foundation for Beiersdorf's wider business in beauty products, and triggered a shift in the product portfolio from purely therapeutical to prophylactic products.

In 1911, Beiersdorf launched its iconic skin cream, using the brand name Nivea, which was already employed for the firm's bar soap.²³ The launch was accompanied by an innovative marketing campaign based on print advertisements and posters. Troplowitz addressed the self-image of women in Nivea advertisements and employed a well-known poster artist to design an elegant "Nivea woman." He thereby suggested to female consumers that Nivea would make them feel more beautiful.

The successful building of brands such as Pebeco and Nivea was responsible for Beiersdorf's rapid growth. While the company had growing research capabilities derived from its heritage in pharmaceuticals, it was by brand-building that it persuaded customers to pay a premium for its products rather than those of competitors. This brand-building was accompanied

by heavy investment in distribution using an in-house sales force as well as wholesalers, wholly-owned distribution companies and exclusive distributors.

Already within the first decade of its existence, the company manifested international ambitions. In 1893 Beiersdorf entered the US market and signed an exclusive contract with Lehn & Fink. This US company, founded in New York City in 1874, had already successfully introducing Lysol, a branded disinfectant, to the United States by importing it from Germany. Otto Hanns Mankiewicz had worked for Lehn & Fink before becoming a partner in Beiersdorf. The agreement between Beiersdorf and Lehn & Fink stipulated that the German firm delivered exclusively to the American partner, which in return restrained from selling similar or identical products by competitors.²⁴ In 1903, Lehn & Fink received a license to manufacture Beiersdorf Dentifrice, which was changed to Pebeco in 1909.²⁵ After 1909, Canada was included in the licensing agreement.

At the turn of the century, Beiersdorf extended its initiatives to Great Britain and Austria, where affiliates were founded in 1906 and 1914 respectively.²⁶ Beiersdorf's products were also manufactured under license by local firms in Buenos Aires, Copenhagen, Mexico, Moscow, Paris and Sydney.²⁷ On the verge of World War 1, exports made up 42 percent of Beiersdorf's total sales.²⁸ The best-selling product was the toothpaste Pebeco, which was successful in many countries and became the market leader in the US. The planned introduction of Nivea cream to foreign markets, by contrast, was frustrated by the outbreak of World War 1.

The war put an abrupt end to Beiersdorf's international activities.²⁹ German businesses lost most of their foreign investments, which were either sold or seized for reparations. In the US, the Trading with the Enemy Act of 6 October 1917 called for the sequestration of all enemy-

owned property. Between 1914 and 1922, German total FDI fell from \$2.6 billion to \$0.4 billion.³⁰ By the end of the war, Beiersdorf's business abroad had ceased to exist.

The United States and other Allied nations expropriated the intellectual property of enemy firms, as well as physical assets. As a result, Beiersdorf lost the trademarks which it registered internationally. In the US, the trademark for the successful toothpaste Pebeco was seized in 1919 and sold to the former partner Lehn & Fink.³¹ The license fee due by Lehn & Fink was transferred to a custodian account, and Beiersdorf was caught up in lengthy disputes. The situation was only partially retrieved by the fortuitous deaths of Oscar Troplowitz and Otto Hanns Mankiewicz in the previous year. Mankiewicz' heirs were born in Posen, which became Polish territory by the Treaty of Versailles. Poland was not treated as an enemy state by the United States, and an amendment to the Trading with the Enemy Act, adopted in 1920, stipulated that proceeds of sales of seized property should be returned to persons who had become citizens of new states carved out of the former German empire. After a decade of litigation, American courts refunded Beiersdorf's \$1 million for the lost assets.³² By the early 1920s, Lehn & Fink had resumed selling Pebeco, but the brand never regained its strong market position, perhaps because of its German associations, as well as a medicinal taste which handicapped the brand as toothpastes became increasingly cosmetic.³³ Beiersdorf's relationship with Lehn & Fink never recovered. Beiersdorf founded its own US affiliate, the P. Beiersdorf & Co. Inc. in 1921. The New York-based company was held by an American trustee, Herman A. Metz. His company, the Metz Laboratories, was designated to cooperate with Beiersdorf in the US.³⁴

The loss of tangible assets and brands was particularly damaging for Beiersdorf and other German companies. The confiscations crippled industries where brands and patents were the most valuable assets, like the pharmaceutical industry.³⁵ The pharmaceutical company Schering,

for example, lost its trademarks in the US and like Beiersdorf was caught up in legal struggles to recover them.³⁶ Bayer, which before the war had been a major manufacturer of drugs and chemicals in New York state, was stripped of its famous trademark for Aspirin, which was sold to a competitor. Bayer only recovered the rights to the brand in the United States in 1986.³⁷ The expropriation of approximately 6,000 German patents in the US gave rise to a domestically-owned industry which substituted for pre-war German products.³⁸ Beiersdorf, like other German firms, found its trademarks transferred into the hands of strong competitors, which in turn proved a formidable obstacle for re-entering some of the most important foreign markets. Moreover, the company was faced with the use of its successful brands by their new owners. International brand identities, like Pebeco, were endangered by the many different and uncoordinated utilizations of the brand.

The simultaneous loss of foreign markets and the deaths of the founders seemed for a time to be the end of the company. However the ownership was stabilized when the Warburg Bank, long linked to the founding family, took an equity stake. Willy Jacobsohn, a pharmacist and successful manager of Beiersdorf since 1914, was appointed as chief executive in 1921. It was an inspired choice. The marketing director Juan Gregorio Clausen re-launched the Nivea brand in 1925 with what became its classic blue tin and the white Nivea logo, and developed a new sporty marketing image featuring "Nivea girls" and "Nivea boys" in the open air and sun. The emphasis on athletic bodies helped the brand appeal to men as well as women, helping it to strengthen its hold on the domestic German skin cream market.³⁹

Jacobsohn also set to work devising strategies to protect the firm from future political risks.⁴⁰ Beiersdorf founded new companies in Switzerland and the Netherlands, two countries which had stayed neutral during World War 1 and would, it was speculated, assume the same

position in the event of a future conflict. The choice of these countries was justified by the argument that "on economic-political grounds they were considered the most preferable."⁴¹ In Switzerland, the Chemische Fabrik Pilot AG (hereafter Pilot) was founded in October 1919.⁴² It was financed by the German parent company, but the shares were held entirely by the Swiss president Richard Doetsch as trustee.⁴³

Pilot was never meant to be a manufacturing affiliate as Beiersdorf started simultaneously to cooperate with the Swiss company Doetsch, Grether & Cie. owned by the same Richard Doetsch. Instead, Pilot was founded with the aim to retrieve, hold and protect property rights abroad. It owned Beiersdorf's trademarks in Switzerland and in some other countries where a Swiss owner seemed politically preferable to a German one. According to the same principle, Beiersdorf founded another affiliate in the Netherlands in 1921, which was jointly owned by the German parent and the Swiss Pilot AG. It was initially intended to retrieve lost trademarks in Great Britain, which a Germany-based company would not have been allowed to repurchase.

In a remarkable *tour de force*, Beiersdorf rebuilt its international business during the 1920s. In 1924, it was again making 24 percent of its sales abroad. Between 1929 and 1931, as the Great Depression took hold, the company founded nine new affiliates (see table 1).⁴⁴ In contrast to Schroeter's argument that German companies switched to risk-adverse, alternative strategies to FDI, such as licensing and long-term contracts, Beiersdorf also invested directly in the foreign markets.⁴⁵

Table 1: Beiersdorf's International Expansion 1929-1931

Year of foundation	Country	Firm, location	Earlier distribution affiliate or branch since
1929	Poland	Pebeco Polskie Wytwory Beiersdorfa S.A., Posen	1924
1929	Yugoslavia	Jugoslavische Beiersdorf D.S.O.J., Maribor	None
1930	Czechoslovakia	Ludwig Merckle, Aussig	None
1930	Latvia	Pilot-Riga Rupn., A.S., Riga	None
1931	Great Britain	Beiersdorf Ltd., Manufacturing Chemists, Welwyn Garden City	1906
1931	France	Beiersdorf S.A., Champigny	None
1931	Italy	Beiersdorf S.A.J. Prodotti Chimici, Milan	1922
1931	Hungary	Beiersdorf Vegyeszeti Gyar R.T., Budapest	1925
1931	Romania	Beiersdorf S.A.R., Kronstadt	n/a

Source: BA Ausland Allgemein, Umsatze der Beiersdorf-Gesellschaften, 1935-37 (undated).
Ibid., Aufstellungen, Uebersichten, 1908-1989 – Tochterfirmen, Vertreter, Lizenzpartner,
25.5.1934.

During the early 1930s new threats to international business emerged with the imposition of exchange controls.⁴⁶ During the banking crisis of the summer of 1931, two years before the Nazis' seizure of power, Germany established tight foreign exchange controls, which were continuously widened to embrace the whole of Germany's trading activities.⁴⁷ The need for foreign capital led Beiersdorf to establish a system of mutual lending between the foreign affiliates, which was independent of German currency regulations. It was initiated and supervised by Jacobsohn and reinforced closer cooperation between the different affiliates.⁴⁸ From 1932, the Dutch affiliate figured as the headquarters for all foreign firms to organize these activities. The system of money circulation and cooperation was the basis of what was eventually to become Beiersdorf's cloaking system, the so-called "ring structure". Like Beiersdorf, many German companies, for example in steel, banking and insurance, organized their foreign business after World War 1 via the Netherlands. As Feldman has pointed out, "Holland was the logical place for both the Reich and private entrepreneurs to turn in an unfriendly post World War I Europe."⁴⁹

The Nazi's seizure of power in 1933 confronted Beiersdorf with new, very concrete political challenges. The company's heritage, current ownership and management was mainly Jewish. Beiersdorf's shares were primarily held by the heirs of the Mankiewicz family and the equally Jewish banking house Warburg. The owners were represented with two Jewish members at the supervisory board, Carl Melchior of Warburg and Leo Alport of the Mankiewicz family. More publicly visible were the three high-ranking managers of Jewish faith, Willy Jacobsohn, Hans Gradenwitz and Eugen Unna.

Within two months after the Nazi's rise to power, several competitors launched a campaign against Beiersdorf trying to trigger a boycott of its products. The "Society for the

Interests of German Brands" mobilized the anti-Semitic press and widely circulated a polemic article published on 4 May 1933.⁵⁰ Even though the campaign ultimately had little success, the incident made it obvious that neither the Jewish managers nor the management of the foreign business could remain in Germany for much longer. In an act of "voluntary aryanization", the shares held by Warburg were converted into common stock, and all Jewish managers resigned from their posts. Beiersdorf used its foreign affiliates and transferred its Jewish employees to the subsidiary in Amsterdam.⁵¹ This practice of placing Jews outside of Germany was a strategy used by several firms at the time.⁵²

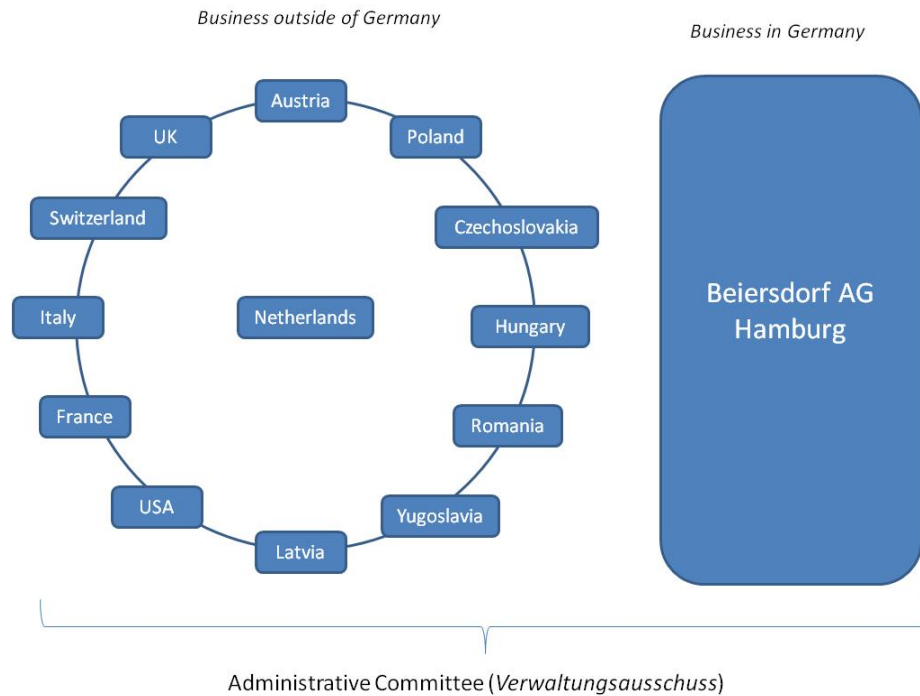
Fighting against the accusation of being a Jewish company, Beiersdorf made sure that its marketing was more carefully aligned with the beauty ideals of the regime. Indeed, the firm may have made an even stronger effort to comply with the assumed wishes of the regime. Nivea advertisements featured almost exclusively blond sportive models with no visible make-up. They referred to the working women that the Nazi ideology supported, and used body images that were aligned with Nazi ideals, even if they built on the heritage of the brand with its emphasis on health and athleticism.⁵³ In its print advertisements, Beiersdorf also used gothic font, which was promoted by the Nazis, although the company avoided the use of Nazi symbols, uniforms or military insignia. Beiersdorf was praised by the Nazi press for its Nivea marketing. The campaign unlike many competitors in the industry allegedly depicted the ideal German woman who, according to the regime's preferences, was "Aryan", athletic and natural. Given that the marketing strategy for foreign markets was completely different, it seems safe to assume that Beiersdorf partly aligned itself with the political propaganda to not raise any doubts about its compliance.⁵⁴

While Beiersdorf's efforts on the domestic market focused on dealing with the regime and the anti-Semitic public opinion, the company simultaneously worked on a new strategy for its international business. Willy Jacobsohn, now based in Amsterdam, continued to work as General Manager of Beiersdorf's foreign affiliates. He first tried to organize the thirteen foreign companies within a holding company to be based in Great Britain. This plan, however, failed because the German authorities refused to give the necessary permission. At the same time the strict Nazi regulations on foreign exchange control required Beiersdorf to pay eight percent taxes on the annual dividends of each affiliate, independent of the actual payments made to Beiersdorf, which were often fragmentary.⁵⁵ In this situation, it seemed economically rational and even unavoidable to separate the foreign affiliates from the parent company to free them from the destructive influence of the German state.

In October 1934, Jacobsohn established what Beiersdorf's management termed the "ring structure." It placed Amsterdam in the middle of a ring of foreign affiliates. The core company in Amsterdam was responsible for purchasing the most important raw materials and ensuring quality control, for jointly-organized research, advertisement and general administration.⁵⁶ This central organization was financed by an annual fee to be paid by the other ring firms. In most countries, such as Switzerland, France, and the US, Beiersdorf's affiliates held only the trademarks and sometimes plants and equipment, whereas the actual business was done by independent partner companies. The profit was divided evenly between the Beiersdorf affiliate and the partner firm. The parent company in Germany received a license fee based on turnover. The contact to Beiersdorf Germany was limited to the fee and the purchase of those raw materials and products that could not be manufactured abroad. As a consequence, Beiersdorf was

henceforth composed of two legally separated pillars, the German business and the foreign business (figure 1).

Figure 1: Organization of Beiersdorf, January 1933



Source: Based on BA Ausland Allgemein, Waren-Treuhand Report 1939.

The German parent company sought to retain its managerial influence by establishing an "administrative committee" composed of Jacobsohn, the managers Hans E.B. Kruse, Carl Claussen and Christoph Behrens, and supervisory board member Rudolf Brinckmann.⁵⁷ The parent company also funded the advertising campaigns of the ring firms, and sought to drive strategic planning through regular meetings of the committee with the ring firm directors.⁵⁸

The initial motives for the ring structure, then, were a diverse mixture of political and commercial considerations, partly shaped by past experience, and partly by perceived future threats. The ring's foundations lay in an attempt to revitalize the lost foreign business, secure tax

advantages, and in particular enable capital transfers in an environment of rising foreign exchange controls. This was reinforced by Nazi regulations concerning German-owned foreign companies that after 1936 were required to remit to the Reichsbank all funds not essential to ongoing operations as well as all future "surplus" funds, with the Reichsbank determining what constituted a surplus.⁵⁹ At the same time, the foreign affiliates especially in the Netherlands, Switzerland, and the US were meant to retrieve lost trademarks, which Germans were not allowed to repurchase. By giving greater autonomy to the affiliates, Beiersdorf also localized management, which would become a typical response by foreign firms exposed to political risk.⁶⁰ As the political environment became increasingly hostile, the ring firms were used increasingly to legally separate the foreign businesses from Beiersdorf Hamburg, which was supposed to free them from German authorities that were an immediate political threat. The fear of war and expropriation by enemy countries was a possible but, at the time of the founding of the ring, still hypothetical menace. Faced with the anti-Semitic campaigns in Germany, the ring had yet another benefit. Beiersdorf placed its Jewish employees in the foreign businesses, mostly in the neutral Netherlands.

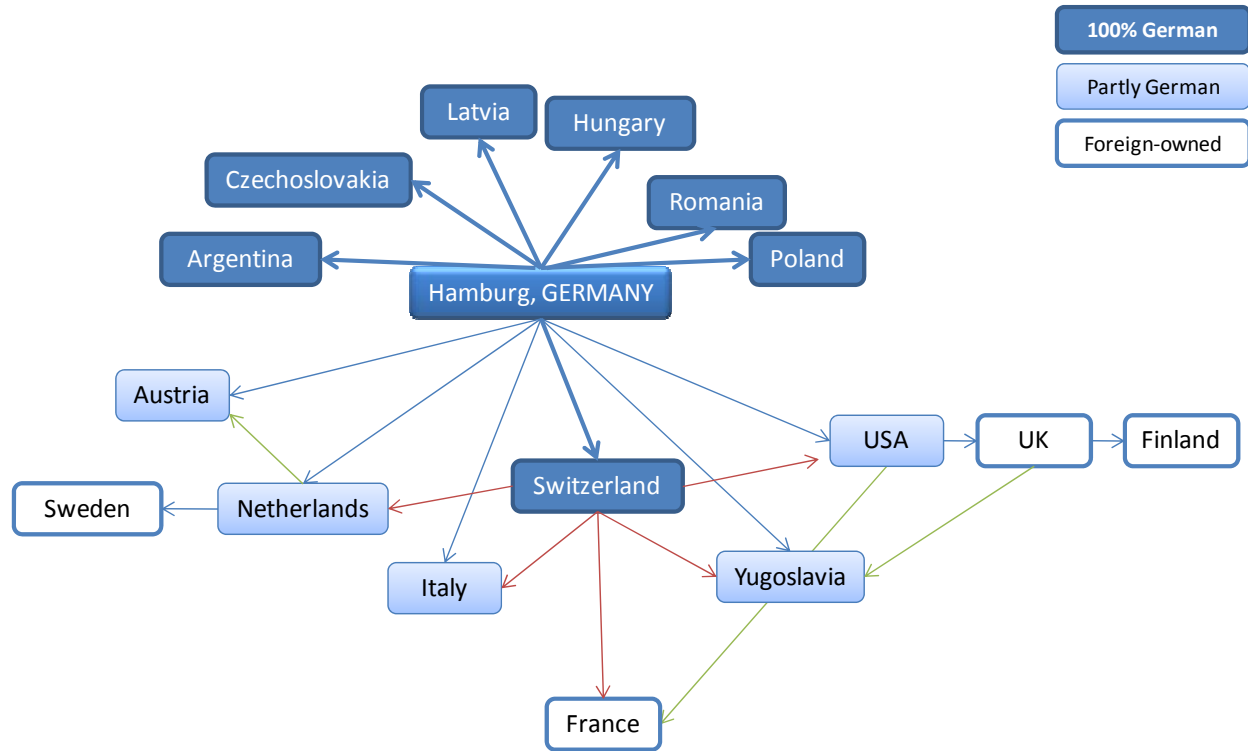
The Inner Circle of Trust: Cloaking during War

A turning point in the evolving structure of Beiersdorf's ring came in 1938/39. The Nazi annexation of Austria in March 1938 signaled that a new war was increasingly likely. In May, Willy Jacobsohn decided to flee to the United States. He went into early retirement at the age of 54 and moved to Los Angeles. He received a pension paid by the ring firms until his death in 1963.⁶¹ The search for a successor led to Richard Doetsch in Basel, with whom Jacobsohn had cooperated to a large extent in the ring. Despite a lot of uncertainty concerning future

developments, most German managers at the time believed that Swiss neutrality was the safest to rely on during a potential war and many respectable Swiss managers were willing to act as trustees.⁶² Most German firms chose their partners based on economic expertise and more importantly trust and prior relations. Therefore, large companies and firms that internationalized early, like Beiersdorf, had an advantage.

The German-born Swiss national Doetsch had been a member of the supervisory board of Beiersdorf's Swiss affiliate, the Pilot AG, since 1923 and held friendly relations with Beiersdorf's managers. It, therefore, seemed natural to transfer the organizational center of the ring to the Swiss Pilot AG. Doetsch's appointment as General Manager of the foreign affiliates inevitably led to a principal-agent-problem as he was president of Pilot and owner-manager of the Swiss partner company Doetsch, Grether & Cie. In this powerful position the relationship between Doetsch, Grether & Cie. and the ring depended solely on his decisions, which might have been one reason for him to agree to the arrangement. Pilot held shares of the Dutch, Italian, French, Yugoslavian and American affiliate and was therefore indirectly engaged in the Swedish, British and Finish affiliate. The complex holding structures within the ring with one affiliate financing another worked in favor of ownership cloaking. Figure 2 shows the web of ownership relations at the end of 1938.

Figure 2: Ownership Structure of Beiersdorf International Affiliates, December 1938



Source: BA Ausland Allgemein, Waren-Treuhand Report 1939.

In 1939, the predicted war began. With the German invasion of Poland on 1 September, World War 2 started. Over the following two years, Richard Doetsch felt his position as trustee for Beiersdorf Hamburg and the ring firms become increasingly dangerous. He feared that whoever won the war would expropriate Beiersdorf's assets. He was especially concerned about the international trademarks, which his own company's business and those of the foreign affiliates depended on. Beiersdorf was in no position to lose Doetsch as its main trustee. In February 1940 it, thus, agreed to sell the Pilot shares for the nominal value of CHF 30,000 to Doetsch personally. Doetsch and Beiersdorf signed a gentlemen's agreement stipulating that Doetsch would manage all foreign assets and rights as trustee for Beiersdorf.⁶³ His newly acquired property rights were supposed to be temporary. The gentlemen's agreement spelled out

that Beiersdorf kept the right to repurchase its property at any time at the exact same price that Doetsch had paid. Richard Doetsch continued his work for the ring but, as the contract stipulated, could not be held liable for any losses that might occur in the future.⁶⁴ Several German companies had agreements of this kind in the late 1930s and early 1940s. The Robert Bosch GmbH in Stuttgart entrusted assets to the German-Dutch banker Fritz Mannheimer since 1937, the chemical company IG Farben had a Dutch holding responsible for its business in India, the Berlin-based pharmaceutical company Schering used a Swiss holding to protect its British and American assets.⁶⁵ In most cases, the contracts included a secret repurchasing clause. Given that these secret agreements were however difficult to enforce, the structures relied heavily on trust, which can be defined as "the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another."⁶⁶ Trust was mainly based on social relations and ethnicity. Beiersdorf chose trustees among its business partners and friends, many of whom were German-born, like Richard Doetsch.

As a consequence of the agreement, Doetsch legally took over ownership of several Beiersdorf affiliates thereby separating them from the German Beiersdorf. In France, he became the president of the Beiersdorf S.A., which cooperated with the Laboratoire Peloille owned by French national Jacques Peloille. The relationship between Beiersdorf France and Peloille was supervised by the manager Henri Gruenstein who had been sent from Hamburg in 1931.⁶⁷

In Italy, the Beiersdorf S.p.A. managed the business itself and did not rely on a local partner firm. The company founded in 1931 belonged first to three Italian and Swiss founders who waived their rights in favor of Beiersdorf Hamburg. In 1934, the ownership was transferred to the Pilot AG as trustee for Hamburg. Rises in capital in 1939 and 1942 were financed in the way that Hamburg granted Richard Doetsch an allowance, which he invested in the company.

While the shares belonged legally to Doetsch, he confirmed in writing to act as trustee for Hamburg.⁶⁸

The Netherlands were under the occupation of Nazi Germany from the spring 1940. Therefore, Pilot's role in the development was limited. The Beiersdorf N.V. was under the control of the company's lawyer and Dr. D. A. Delprat, the former president of the Amsterdam chamber of commerce. Both disguised the company as a Dutch-owned firm. Already in 1934, the Dutch Beiersdorf had founded a further affiliate in Sweden, which belonged to five Swedish nationals. They, however, waived all their rights in favor of the Dutch Beiersdorf.⁶⁹

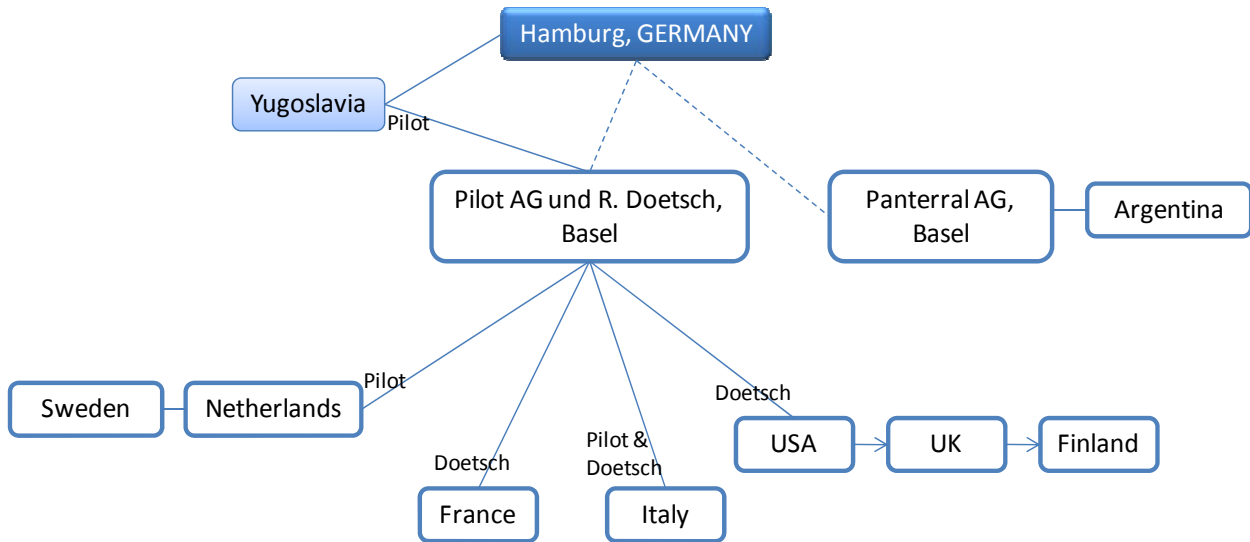
In the US, Beiersdorf, Inc. was founded in 1921, when the relationship with the former partner Lehn & Fink ended in a legal dispute. The capital of \$10,000 was split between Beiersdorf and an American trustee, Herman Metz. In the mid of the 1920s Metz also took over most of Beiersdorf's shares but agreed to hold them as trustee for Beiersdorf. Metz, who legally owned 96 percent of the shares, died in 1934. His shares were transferred to his former employee Carl Herzog, who became Beiersdorf's new trustee in the US. His company, Duke Laboratories, were the new partner company and responsible for the business in the US, while the American Beiersdorf held the trademarks and owned some plants and equipment.

Legally the company belonged to Herzog (96%), Richard Doetsch (1%) and a New York-based individual (1%), who held the shares as trustees for Beiersdorf. Only a minority (2%) belonged to Pilot AG and was therefore Swiss property. However, Herzog told the American and British authorities during the war that the beneficiary was the Swiss company Pilot, a fact that was never contested after this official statement had been made.⁷⁰

In 1940, Richard Doetsch personally took over the shares of Pilot and therefore became the sole owner of the US Beiersdorf – as far as the US authorities were concerned. Doetsch, who was less familiar with the organization and business of the ring created by his predecessor Jacobsohn, did not feel up to the task of managing the American affiliate from a distance. He decided to give full power of attorney to Carl Herzog. The agreement with Herzog gave rise to the same principal-agent-problem that existed in Switzerland. Herzog, like Doetsch, controlled *de facto* both the American Beiersdorf and the partner company.

In Great Britain, Beiersdorf Ltd. was originally set up by the American affiliate of Beiersdorf. At the beginning of the war, the German manager of the company was imprisoned.⁷¹ The British authorities, however, were unable to prove the company's German ownership which was formally under American control. In 1940, the management renamed the company Herts Pharmaceuticals in order to conceal its relation to Beiersdorf. The British Beiersdorf had itself launched a further affiliate in Finland in 1933. In 1939, two shares of the Finnish company were sold to Mr. and Mrs. Schleutker, who granted a first right of refusal to the British affiliate of Beiersdorf.⁷²

Figure 3: Ownership Structure of Beiersdorf International Affiliates, March 1942



Source: BA Ausland Allgemein, Waren-Treuhand Report 1942.

It is striking that most of Beiersdorf's cloaking activities occurred independently of the Nazi regulation on cloaking, which itself was ambiguous and faltering.⁷³ In September 1938, the German Minister of Economics gave limited permission for cloaking by German firms under the condition of prior state approval. Henceforth, licenses could be issued but were by law restricted to "reliable German firms". Even though reliability was not defined, Beiersdorf, having earlier been attacked as Jewish, could not hope to fall into this category. The attempts by Jacobsohn to receive permission for a holding based in Great Britain failed. But in any case Nazi support for cloaking was short-lived. With a decree of 12 October 1938, all cloaking permission was revoked unless companies proved that they were not diminishing the flow of foreign currencies into Germany. Furthermore, all companies, even if they did not have prior permission, were requested to uncloak their assets abroad at this point. Depending on an increase in foreign exchange, the Nazis even granted exemption from punishment for companies revealing their

cloaked foreign assets to the government. Beiersdorf, however, did not respond to the plea, but continued reorganizing its ring firms and disguising their ownership.

With the outbreak of the war, the Ministry of Economics changed its position once again. On 9 September 1939, the Ministry called for the rescue of German assets abroad by concealing German ownership. It bluntly suggested to legally separate foreign businesses from German companies but to guarantee the influence by carefully selecting the individuals that managed those firms.⁷⁴ Several companies applied for the necessary authorization.⁷⁵ Beiersdorf sold its Pilot shares to Doetsch in February 1940 with the approval of the German authorities. The price of CHF 30,000, which had been deposited in Basel for the time being, was transferred to the Reichsbank in March 1942.⁷⁶ However, Nazi support for cloaking was once again short lived. In 1940/41, the Ministry revoked its support in all industries not necessary for military goals. Many companies opposed this decision, arguing that foreign currencies were still crucial for the financing of the war and that sudden uncloaking would put their trustees abroad at risk. A case by case evaluation was the outcome but in 1943, the Nazis finally decided to deny all cloaking applications.

A review of the Nazi policy shows that it was limited, restricted to "reliable companies" and most importantly very undependable. Assuming that German multinationals were particularly risk-adverse after the experience of World War 1, as several scholars point out, the ambiguous and unpredictable Nazi policy could not have had a strong impact.⁷⁷ Beiersdorf as a Jewish firm knew early on that they could not build on governmental support. It therefore looked for alternative strategies to protect itself against political risks, relying more and more on one-on-one relationships rather than legally enforceable contracts. Theoretically speaking, the company

lost faith in systemic trust, such as abstract principles and the rule of the law, and instead relied on personal trust.⁷⁸

The ring strategy had some success, at least in the short-term. In addition to Jacobsohn, the other Jewish managers and members of the board were put out of harm's way. Hans Gradenwitz and Leo Alport died of natural causes, in 1933 and 1935 respectively. Eugen Unna continued to work for Beiersdorf as a chemist and returned to the German parent company in 1945. He remained a member of the management until his retirement in 1947. The ring organization also enabled the company to overcome some of the problems caused by German exchange controls, and the system of mutual financial support and cooperation worked out well. In 1938 the 13 ring firms realized a profit of RM 900,000, and paid one third of it to the parent company.⁷⁹

Rebuilding Trust and Brands after 1945

The ring structure proved ineffective in preventing the expropriation of foreign assets after the end of World War 2. The affiliates in central and eastern European countries were taken over by the new Communist regimes. Elsewhere, the companies in the US, Great Britain, Austria, and the Netherlands, along with their affiliates in Sweden and Finland, were expropriated by the Allies. International trademarks, especially the leading brand of Nivea, were lost in all of these countries as well as in Denmark, Norway, Mexico, Brazil, Argentina, the British Commonwealth, the French colonies, and many more. The companies in France, Italy and Switzerland remained in the hands of Richard Doetsch. In Switzerland, the Swiss government came to an accord with the Allies in 1946 to liquidate all German assets and transfer 50 percent to a fund for reparations.⁸⁰ Doetsch swore to the Allies under penalty of perjury that

Pilot was his property. Despite the gentlemen's agreement between him and Beiersdorf, Doetsch refused to give the property back arguing, not entirely unreasonably, that in doing so he would put himself at risk.⁸¹

As Germany began to recover, Beiersdorf sought to regain the lost assets. The relationship with Richard Doetsch was crucial. He continued to act as trustee for the Italian and the French company, and held the shares of the Swiss Pilot AG and the international trademarks. After the war, Allied investigators informed Beiersdorf that Doetsch had declared to be sole owner of Pilot and by consequence of Beiersdorf, Inc., USA. In 1947, they offered assistance in fighting this statement, which they considered yet another attempt of a "neutral citizen taking advantage of the economically helpless state of Germany."⁸² Beiersdorf reacted in calling Doetsch's statement "understandable" and seeing him as someone "who has already taken possession of an article promised to him, but who has still to reach a settlement with his contracting partner regarding payment of the purchase price."⁸³

Despite Doetsch's refusal to transfer the assets back to their former owner, Beiersdorf's senior management accepted the postwar status quo.⁸⁴ They also continued to claim that a written version of the gentlemen's agreement with Doetsch had been lost during the war.⁸⁵ Beiersdorf neither criticized Doetsch's behavior concerning the Swiss company nor the decisions he made as trustee concerning other companies, but instead prioritized restoring good personal relations with him. Doetsch claimed that he agreed to the trustee relationship because of "pure friendship with the old acquaintances", but that his considerable amount of work was little appreciated by the postwar managers.⁸⁶ On one occasion, he wrote to the former manager Jacobson that Beiersdorf was "the nails to his coffin."⁸⁷

Beiersdorf's managers Hans E.B. Kruse and Carl Claussen devoted a considerable amount of time to the damaged relationship, and visited Doetsch regularly in Basel.⁸⁸ Their efforts were rewarded with an agreement in 1953. Doetsch granted Beiersdorf the option to repurchase the Pilot shares at the time of his death for CHF 600,000 rather than the CHF 30,000 as agreed upon in the gentlemen's agreement. When Doetsch died in 1958, Beiersdorf repurchased the shares at this price. Beiersdorf also continued the long-term relationship with the Swiss partner company Doetsch, Grether & Cie., which was active in pharmaceuticals and cosmetics, which was to become one of the most profitable partnerships in the 1960s.⁸⁹

Relatively soon after the war, Beiersdorf also managed to regain its property in the formerly occupied countries of Austria and the Netherlands. In Austria, the Beiersdorf GmbH was under the control of the "Administration for Soviet Property in Austria" which operated as a *de facto* state corporation until the withdrawal of Soviet troops in 1955. When Austria was re-established as a sovereign state in 1955, the assets were sold to the Austrian government, and Beiersdorf was able to repurchase the firm and valuable trademarks for DM 800,000.⁹⁰ In the Netherlands, the trustee of the Beiersdorf N.V. sold his shares in 1952 to Beiersdorf Hamburg (49%) and the two Dutch managers (51%). The managers in return sold their share to Beiersdorf in 1954 under the condition that the Director of the Board remained Dutch until both of them retired.⁹¹ The price was 800,000 Dutch guilders.

The shares of the Italian Beiersdorf firm had been transferred to Pilot during the war. After the death of Richard Doetsch, his Italian partner Willy Zimmermann became the sole owner of the former Italian affiliate. Thanks to the successful cloaking, there was little struggle over the Italian company after the war, which was owned by a Swiss and an Italian.⁹² Zimmermann had good personal relations with Doetsch and Beiersdorf's senior managers. Kruse

visited Zimmermann regularly during vacations in Italy. On one of these trips, Zimmermann confided to Kruse that he considered himself "an honest thief."⁹³ He agreed to transfer the shares to a newly founded Swiss holding company owned by Beiersdorf Hamburg. In return, Beiersdorf offered his son Paul Zimmermann a five-year contract as chief executive of the Italian company.⁹⁴ This concession allowed Zimmermann to continue pursuing a "dynastic motive" for the company that he had managed for several decades.⁹⁵ In 1963, the Italian firm belonged once again to Beiersdorf. Willy Zimmermann, the only trustee who gave the assets back without any financial compensation, remained on the Board until 1976.

In Denmark, the German firm's trademarks were expropriated and sold to competitors in 1950. An employee of Beiersdorf's former partner firm bought the Nivea trademark for DM 270,000. Despite a licensing contract with Beiersdorf, the new owners refused to follow a joint advertising strategy and presented Nivea as an exotic, oriental body care system. Beiersdorf re-entered the Danish market in 1962 using the Tesa brand of adhesive tapes. In 1965, the Danish owner E. O. Bruun died unexpectedly, and one year later Beiersdorf repurchased the Danish trademarks for DM 2 million, and began re-assembling the Beiersdorf business in one company.⁹⁶

In 1967, Beiersdorf again achieved international sales worth DM 200 million, composed of approximately DM 20 million in exports, DM 36 million in license fees, and DM 144 million of sales by the fifteen affiliates abroad. The most successful were the ones in Italy and the Netherlands with sales of DM 27 and 26 million respectively. Over four-fifths of the international sales were in Western Europe.⁹⁷ Given the loss of the Nivea trademark, most of the international business was generated by sales of newer brands. These included Tesa, the

deodorant soap 8 x 4, and the hand lotion Atrix. Tesa had been first launched in 1935, and then taken international after World War 2. 8 x 4 was launched in 1951 and Atrix in 1955.⁹⁸

The recovery of the Nivea brand in the large markets of France, Britain and the United States proved tortuous. The situation in France was especially complicated. Beiersdorf had only acquired the French Nivea trademark shortly before the war, as Guerlain had already trademarked the name Nivea in 1875. The French company sold these older rights to Beiersdorf in 1930, and Beiersdorf paid in annual installments until 1940. While Beiersdorf S.A., then owned by Richard Doetsch held the trademark, the actual business was operated by the partner firm of Laboratoires Peloille.

The owner of Laboratoires Peloille, Jacques Peloille, and Richard Doetsch signed a new contract in 1946 stipulating the amount that Peloille had to pay to Pilot (annually 300,000 Francs, after 1948 450,000 Francs). Regarding the trademark for Nivea, the former Beiersdorf manager Henri Gruenstein, who had changed his name to Gustin during the war, became the most active player. Gustin pointed out to Doetsch that the French Beiersdorf company had debts in US dollars, which were increasing in value due to the weak French currency. He argued that if the French Beiersdorf started earning a considerable amount of money, it would raise the risk that the French authorities would investigate the ownership structure more closely and discover the connection to Beiersdorf. Gustin, therefore, suggested to Doetsch to sell the trademarks to Peloille, among them Nivea. Doetsch agreed, and sold the trademarks for DM 220,000, without first consulting with Beiersdorf in Hamburg.⁹⁹ In 1952, Peloille gave his company, now named Nivea S.A. and including the Nivea trademark, to Henri Gustin, and kept only the rights for adhesive tape brands. The reasons for this step remain unclear; Peloille wrote to the retired

Jacobsohn that he was desperately trying to split up the partnership with Gustin, "under whose character he had suffered for 20 years."¹⁰⁰

In 1957, Nivea S.A. went public. Unable to repurchase the company nor the brands, Beiersdorf first sought to collaborate with the French company, which Gustin declined. In 1964, there were more negotiations, but Gustin demanded too high a price. Instead, Beiersdorf introduced new brands such as Atrix and 8 x 4 to France employing a licensing contract with a new company called Sofrac. In 1968, the aged Gustin finally agreed to sell his Swiss holding company, which held 24 percent of the Nivea S.A., to Beiersdorf. In 1974, Beiersdorf raised its ownership to 98.2 percent for a cost of DM 25.5 million.

The recovery of the Nivea brand took even longer in the US, where Beiersdorf's assets were expropriated by the government. The partner company Duke Laboratories and its owner Carl Herzog bought the trademarks from the Office of Alien Property. Herzog financed the deal with money that his company did not pay to Germany for license fees. Carl Herzog and Jacobsohn had been good friends previously, but Jacobsohn was outraged by Herzog's betrayal. He informed the Office of Alien Property about Herzog's maneuver. As a consequence, Herzog was forced to pay \$600,000 for the trademarks instead of the original price of \$75,000.¹⁰¹

Despite this open conflict with the retired Jacobsohn, Beiersdorf's managers tried to restore a relationship with Herzog. As in Switzerland, regular visits by and correspondence with high-ranking managers were parts of the strategy.¹⁰² The business situation, however, presented itself very differently. Herzog, who was already 75 years old in 1960, opted for a strategy of no risks and small profits. Competitors launched new products in the space Nivea would have occupied.¹⁰³ Beiersdorf opted to wait it out. Managers sought to maintain a dialogue with Herzog

and, more importantly, with his lawyer and executor of his will. In order to remain present on the US market, Beiersdorf founded a Tesa corporation in New Jersey in 1971. In 1973, the 88 year-old Herzog decided to retire. Beiersdorf was finally able to repurchase the brands Nivea, Eucerin and other trademarks for \$4 million.

In Great Britain, while during the war the affiliate had been successfully cloaked as an American company, in 1947 the authorities became aware that Beiersdorf Germany was the ultimate owner of Herts Pharmaceuticals. The company was sequestered and came under the control of the Custodian of Enemy Property. It was offered for sale and Smith & Nephew (S&N), a health care company which had shortly before staged an unsuccessful entry into toiletries, purchased it and the Nivea brand in 1951. Beiersdorf had cooperated with S&N in the band-aid market since 1931.¹⁰⁴ In 1959, this cooperation was extended through a license agreement for Atrix (renamed Atrixo in Great Britain). Beiersdorf consulted S&N in the Nivea business and was paid a commission.¹⁰⁵ By the early 1960s S&N's Nivea accounted for 40 percent of all general-purpose skin creams sold in Britain.¹⁰⁶ S&N resisted Beiersdorf's attempts to build closer relationships, although the German company was able to slowly recover from S&N the rights to the brand in countries which had formerly belonged to the British Empire. It brought the rights for African countries during the 1960s, and in 1977 it acquired the rights for some Asian markets, including Bangladesh, Hong Kong, Thailand, Malaysia, Singapore and Sri Lanka, as well as Gibraltar, Malta, Cyprus and some Caribbean countries.¹⁰⁷

It was not until 1992 that Beiersdorf was able to buy the Nivea brand in Great Britain and Ireland, as well as in Canada, South Africa, Australia, New Zealand, India, Pakistan, and Israel. The sale price was £46.5 million.¹⁰⁸ The British firm, however, requested to keep the distribution in its hands and it was not until 2000 that Beiersdorf also regained sales and distribution rights.

Given the idiosyncratic situation in each country, then, Beiersdorf had to use multiple strategies in order to re-enter international markets and regain lost assets. One of the biggest problems for the skin care company was the loss of control over trademarks, particularly Nivea, as it threatened the coherence of an international brand as new owners, as in Denmark, re-invented the marketing image. As a consequence, Beiersdorf faced a dangerously fragmented brand identity for its most important product line even as it sought to refresh and grow the brand in Germany.¹⁰⁹

Beiersdorf pursued two strategies to rebuild its international business. First, new brands were used to re-enter markets. The Tesa brand in particular was used as a first step back into foreign markets as diverse as Denmark, Spain, France, Sweden, and Mexico. Secondly, the firm slowly re-acquired its expropriated brands, of which Nivea was the most important. Table 2 shows the amount of money spent to re-acquire lost assets.

Table 2: Estimated Costs of Beiersdorf regaining seized assets 1952-1992

	Year of repurchase	Costs (in million \$) ¹	Costs (in million \$2009)	% of sales Beiersdorf AG ²
Netherlands	1952/54 ³	0.2	1.7	2.39
Austria	1956	0.2	1.5	1.84
Switzerland	1958	0.1	1.0	0.98
Italian	1963	<i>None</i>	<i>None</i>	0
Denmark	1966	0.5	3.3	0.67
Finland	1966	0.3	1.6	0.33
Sweden	1961/68 ⁴	3.0	19.0	3.18
France	1968	6.3	39.4	6.59
US	1973	4.0	19.3	2.34
Great Britain	1992	82.3	126.0	6.42

Sources: Costs according to BA Ausland allgemein, Aufstellungen Uebersichten 1908-1989 Tochterfirmen, Vertreter, Lizenzpartner, Uebersicht ueber Auslandsgesellschaften [undated, approximately 1967]. Kruse, *Wagen*. Sales and turnover from Beiersdorf's Annual Reports 1952-1992.

¹ at time of repurchase

² at time of repurchase

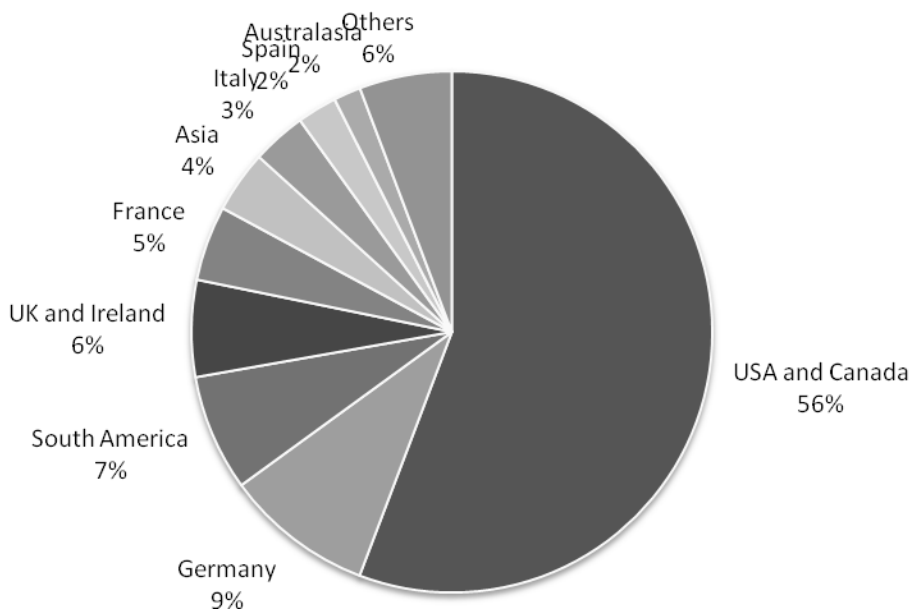
³ estimate based on sales in 1954

⁴ estimate based on currency exchange rates and sales of 1968.

Table 2 shows the amounts paid in each country in total \$, as well as in the percentage of Beiersdorf sales at the time of the re-purchase. Whereas reacquiring assets in Italy, Finland, Denmark, and Switzerland proved comparably cheap, it was the most difficult and expensive to come to an agreement with the new owners in France, Great Britain, Sweden, and the US.

There appear to be at least four factors influencing the variations in time and cost of the repurchasing strategy. First, the attractiveness of the different markets determined the value of the property that Beiersdorf claimed. Figure 4 shows the relative sizes of world skin care markets in 1950. The Nivea trademark was the most important prewar asset that Beiersdorf tried to regain.

Figure 4: The World Skin Care Market by Country, 1950 (% estimated world market)¹



Source: Unilever Archives Rotterdam, report 3508, "Preparations and perfumery survey, 1950–1", June 1951 (excluding communist countries and Japan). See also Jones, "Blonde".

¹ Estimated total size was £56 million (\$157 million). This estimate excludes Communist Countries and Japan.

Nivea was most valuable in those regions which had the highest spending on skincare. Besides Germany itself and South America, the most attractive markets in 1950 were the US, Great Britain, and France.¹¹⁰ Nivea was a valuable brand for American, British and French companies. In smaller markets, local companies had more to gain from selling the brand for a decent price and maintaining a good relationship with the German company.

Second, as after World War 1, the trademarks had been sold to Beiersdorf's competitors in some countries and to former partners in others. In most cases, former partners were more willing to cooperate. In Switzerland and Italy, for example, Beiersdorf repurchased the trademarks and assets soon after the war and continued to work with the partner firms. In Austria, the assets were held by the state, which was mostly interested in selling the shares. By contrast, the competitors in Great Britain and to some extent France were less inclined to support Beiersdorf's desire to re-enter their market.

Third, good personal relations with corporate decision makers proved to be valuable. Beiersdorf's strategies were more successful when the company could build a personal relationship with one decision-maker than when assets were held by a publicly owned corporation, as was the case in Great Britain. In the case of the US and France, shares and rights were held by the former partners, Carl Herzog and Henry Gustin, but the relations were unstable due to conflicts about the property. The relationship with trustees in Switzerland, the Netherlands and Italy, by contrast, survived relatively intact. Aware of their importance, Beiersdorf also invested in rebuilding trust to these former partners.¹¹¹ Beiersdorf's postwar managers avoided moral claims and accusations, which might have proved disruptive.

Finally, time mattered. As the Nivea brand was rebuilt in Germany, so its value rose, and the longer the company took to re-acquire it, the higher the price. Still, as Beiersdorf slowly re-acquired the rights to the brand, it was able to invest in developing its role as a global brand. By the mid-1980s Beiersdorf had a formal marketing strategy to promote Nivea as a global product rather than permitting multiple different national brand identities.¹¹²

Conclusions

This working paper has argued that after the outbreak of World War 1, the management of political risk became a central concern for firms, especially those operating internationally. These risks were on many levels, from expropriation to exchange controls and other economic policies. German firms, which had flourished during the second industrial revolution of the late nineteenth century, and enthusiastically expanded internationally, found themselves especially exposed to such risks. Moreover, at home, first the policy response to the Great Depression, and then the advent of the Nazi regime, resulted in a new set of major challenges for businesses. Beiersdorf faced the worst of all worlds. Although far from being one of German's giant business enterprises before 1914, it was a determined multinational investor, and so suffered the loss of its businesses in the United States and elsewhere as a result of World War 1. As a consumer products manufacturer whose brands and trademarks lay at the heart of its competitive advantages in international markets, the loss of these intangible assets was especially damaging. Finally, as a so-called Jewish business, the arrival of the Nazi's put the firm in harm's way in its home market.

The scale of external challenges appears to be so great that Beiersdorf's survival into the second half of the last century seems at least surprising, and perhaps miraculous. There were

certainly elements of a miracle in the story – noticeably the owning family’s origins in what would become part of Poland. But this working paper has argued that Beiersdorf’s survival was primarily due to heavy investment in corporate structures, as well as some ethically questionable flexibility in its home market during the 1930s.

In the wake of World War 1, Jacobsohn developed the "ring" organizational structure as a way for affiliates to disguise ownership, circumvent national regulations or even adopt a different nationality. The firm was not alone among German – and even Swiss – firms in splitting its foreign business from its domestic business in response to perceived risks. Beiersdorf was, however, unusual in its dependence on trust to support this organizational structure. The firm built a network of trustworthy individuals and business partners that enabled it, eventually, to separate the German parent company from its international affiliates. In circumstances when the rule of law was breaking down, the company switched from relying on formal contracts to relying on reliable local partners and friends. Where possible, Beiersdorf relied upon trustees that were linked to the company by prior social and business relations as well as ethnicity. Most of them were German-born business partners or former employees. This strategy allowed Beiersdorf to localize the management of its affiliates, delivering advantages both in the marketplace and in controlling political risks.

The historical path dependency of the company’s political risk management reveals such "cloaking" as something other than a mechanism for facilitating cooperation between the Nazi government and German businesses. Beiersdorf’s strategy developed slowly over time and combined political motives with urgent economic needs. The ring originally facilitated the flow of goods and capital between countries in the context of severe policy restrictions, acted as an organizational framework to regain assets that were lost during World War 1, and reduced the

firm's exposure from adverse government interventions both abroad and at home. With the changing political situation, it developed increasingly into a cloaking device designed for the purpose of concealing assets from different political authorities and providing a safe haven for individuals that were politically threatened in Germany. The Nazi government's overall support for cloaking by German firms, itself transient and ambiguous, played no part in Beiersdorf's schemes.

This working paper has departed from much previous literature by looking at the outcomes of Beiersdorf's strategies. They were quite successful in the short term. At home it was able to circumvent attacks on its "Jewish" identity from competitors, whilst getting senior Jewish managers out of the country. The firm was able to rebuild its international business, and to retain it as a profitable business during the 1930s, despite a welter of exchange controls and other restrictions which handicapped German and other firms. The establishment of the ring turned out to encourage stronger cooperation between the different foreign affiliates, most notably between the companies based in Switzerland and the Netherlands, which provided a base on which the company could rebuild its export business after the war.

In the longer-term, the ring strategy failed to protect most of the firm's foreign assets from expropriation. Factories and key trademarks were lost in most markets. As the rule of law was re-established in the international economy, deals done on the basis of trust unraveled. Good friends, such as Carl Herzog, betrayed the trust that had been placed in them, shutting the firm out of the American market for almost three decades. The relationship with Richard Doetsch and Swiss-based Pilot worked somewhat better. In every instance, Beiersdorf was forced to invest much time and energy in rebuilding relationships. The firm's commitment to the Nivea brand

reflected a deeply embedded attachment to its value, despite the ability to create new brands such as Atrix and Tesa, which were pragmatically used to re-enter markets.

It was a striking testament to the damage caused to German business by World War 2 that Beiersdorf, which had so carefully invested in organizational structures to counter political risk, only recovered ownership of the Nivea brand in the United States and Great Britain in 1973 and 1992 respectively. Neither contracts nor trust could protect German firms from the consequences of the traumatic political events of these years. Yet Beiersdorf's history shows that there was some room for managerial discretion. Faced by the worse of all worlds, the firm survived and was able, at great cost, to rebuild its business.

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² Chandler, *Visible Hand*; Wilkins, *Emergence*.

³ Jones, *British*; Jones, *Merchants*.

⁴ Jones, *Multinationals*, 24-5, 285-7.

⁵ See (among other studies), Putten, *Behaviour*; Decker, "Building"; Decker, "Advertising"; White, *British Business*; White, "Surviving"; Bamberg, *History*; Jones, *Multinationals*, 219-20.

⁶ About business reactions to political risk in Germany and the effects of dictatorship on business cf. Kobrak, Hansen, and Kopper, "Business", 6-18. Wilkins, "Multinationals", 24-38.

⁷ For Schering see Kobrak, *Cultures*. For IG Farben Koenig, see *Interhandel*. For Bosch see Aalders and Wiebes, *Art*, 37-53. For Deutsche Bank Simpson and Office of Military Government, see *War* and Ziegler, "German". However, some of the best studies about German companies in that time period provide little or no information about cloaking activities. For example, James, *Nazi Dictatorship* and Feldman, *Allianz*.

⁸ See, for example, Kurosawa, "Second World War."

⁹ Aalders and Wiebes, *Art*, 9. About the term "tarnen" (roughly translated as cloaking) cf. Schmitz-Berning, *Vokabular*, 603-10, and Uhlig et al., *Tarnung*, 53-5.

¹⁰ Borkin, *Crime*; Aalders and Wiebes, *Art*.

¹¹ Uhlig et al., *Tarnung*, 54.

¹² Aalders and Wiebes, *Art*; Uhlig et al., *Tarnung*; Lussy and López, *Finanzbeziehungen*.

¹³ Koenig, *Interhandel*; Kobrak and Wuestenhagen, "Investment".

¹⁴ Koenig, *Interhandel*.

¹⁵ Kobrak and Wuestenhagen, "Investment". For cloaking activities in multinationals based in Germany cf. also Wilkins, "Multinationals", 27.

¹⁶ For a discussion of home country risks, see Storli, *Norway*; Kobrak, Hansen, and Kopper, "Business", 6-7, and Jones, *Multinationals*, 220-3.

¹⁷ See in particular the introduction by Kobrak, Hansen, and Kopper, "Business," and Wilkins, "Multinationals."

¹⁸ Kobrak and Wuestenhagen, "Investment", p. 407.

¹⁹ While some scholars have investigated the political debates after the war, there is almost no discussion about multinationals' strategies to regain seized property. For debates and developments on the political level see Aalders and Wiebes, *Art*, 105-52, and Kobrak and Wuestenhagen, "Politics". However there is some evidence that the recovery of assets was a huge problem. For Schering, Kobrak mentions that the company bought its subsidiary in Italy back in 1969. Kobrak and Wuestenhagen, "Investment", 424, footnote 39. Wuestenhagen gives some information on Schering in Argentina: Wuestenhagen, "German", 96-9.

²⁰ Hausman, Hertner and Wilkins, *Global*, pp.95-104.

²¹ For other German companies cf. Kobrak, *Cultures*, 143-84; Koenig, *Interhandel*, 54-6.

²² Gries, *Produkte*, 455.

²³ Beiersdorf AG, *100 Jahre*, 9-24; Jones, *Beauty*, 54-8, 80; Gradenwitz, *Entwicklung*; Hansen and Beiersdorf AG, *Nivea*, 26-7; Gries, *Produkte*, 453-559.

²⁴ Beiersdorf Corporate Archives, hereafter BA, *Entwicklung 1919-1945, Lehn & Fink-Komplex, Verträge 1893-1924, "Agreement re: Guttapercha-Plastermulls, Salvemulls, etc. of March 25th 1893 with amendment dated September 15th 1906"*. For a general overview see also Beiersdorf AG, *100 Jahre*, 24-5.

²⁵ BA, *Entwicklung 1919-1945, Lehn & Fink-Komplex, Verträge 1893-1924, "Vertrag betreffend: ‚Pebeco‘ / Translation of the agreement of 4th/16th Dec. 1903 re: Pebeco"*.

²⁶ Hagen, *Direktinvestitionen*, 81, 97.

²⁷ Beiersdorf AG, *100 Jahre*, 26.

²⁸ *Ibid.*, 46; Jones, *Beauty*, 55; Beiersdorf UK, *Ninety-Seven*, 9.

²⁹ About WW 1 as a watershed for business and its political risk management see also Kobrak, Hansen, and Kopper, "Business", 10-13.

³⁰ Schroeter, "Continuity," 30.

³¹ The Nivea line had been sold in the US since 1914, but had not yet grown its sales to the point at which the government deemed it important enough for appropriation.

³² Kruse, *Wagen*, p. 86-93. Anonymous. "\$1,000,000 Refunded to Former Enemies. Government Pays the Heirs of "Pebeco" Manufacturers-They Are Now Polish", *The New York Times* July 24, 1923, 6.

³³ JWT, Account Histories, Lehn & Fink, January 28, 1926, JWT Account Files, Lehn & Fink, 1926, 1967, Box 12.

³⁴ BA, Entwicklung 1919-1945, Lehn & Fink-Komplex, Verträge 1893-1924, "Auseinandersetzung mit Lehn & Fink," undated [1921].

³⁵ Chandler, *Shaping*; Kobrak, *Cultures*; Jones, *Multinationals*; Wilkins, *History*.

³⁶ Kobrak, *Cultures*, 76-8.

³⁷ Jones, *Multinationals*, 203.

³⁸ Wilkins, *History*, 122.

³⁹ Uta G. Poiger, "Beauty," 56-7.

⁴⁰ Schroeter, "Risk".

⁴¹ Authors' translation. BA, Ausland Allgemein, Deutsche Waren-Treuhand-Aktiengesellschaft, "Zusammenfassende Darstellung ueber die formellen und materiellen Rechtsverhaeltnisse der sechzehn zum Ausland-Ring gehoerigen Beiersdorf-Gesellschaften nach dem Stande vom 31. Dezember 1938," Hamburg, den 31. Januar 1939, 2 (hereafter Waren-Treuhand Report 1939).

⁴² The name Pilot is based on the umbrella trademark used since 1905. Kaum, *Oscar*, 49-51. Cura, "Leukoplast", 114.

⁴³ BA, Ausland Allgemein, Waren-Treuhand Report 1939, 8.

⁴⁴ Beiersdorf AG, *100 Jahre*, 48.

⁴⁵ Schroeter, "Risk".

⁴⁶ Jones, *Multinationals*, 203-4.

⁴⁷ See Wilkins, "Multinationals", 26-30. For the monetary system of the interwar-period cf. Eichengreen, *Globalizing*, 43-90.

⁴⁸ Beiersdorf AG, *100 Jahre*, 64.

⁴⁹ Feldman, *Iron*, 265; Frey, *Erste Weltkrieg*, 352-70.

⁵⁰ Bajohr, *Aryanisation*, 22-26.

⁵¹ About the term "aryanization" cf. Köhler, *Arisierung*, 38-42.

⁵² Cf. Kobrak and Wuestenhagen, "Investment", 411; Kobrak, *Cultures*, 267-71; Borkin, *Crime*.

⁵³ Poiger, "Beauty"; Gries, *Produktkommunikation*, 195-215; Hansen and Beiersdorf AG, *Nivea*; Poiger, "Fantasies", 336-9; Weinbaum et al., "Girl".

⁵⁴ Jones, *Beauty*, 124-5; Poiger, "Fantasies", 337-8; Schroeter, "Erfolgsfaktor", 1104.

⁵⁵ Kruse, *Wagen*.

⁵⁶ BA, Ausland Allgemein, Waren-Treuhand Report 1939.

⁵⁷ Rudold Brinckmann was an employee of the Warburg bank since 1920 and took over supervisory board mandates from members of the Jewish Warburg family. Eventually he became senior partner of the bank, which he managed for the Warburgs during the Nazi period. For a detailed account cf. Chernow, *Warburgs*, 565-71.

⁵⁸ BA, Vertriebe, Umsaetze 1901-1970, Monatsberichte.

⁵⁹ Cf. Kobrak and Wuestenhagen, "Investment", 410; Wuestenhagen, "German", 85.

⁶⁰ Jones,"Multinational Strategies; BA Ringfirmen. Nachkriegskorrespondenz von grosser Wichtigkeit, vor allem Briefwechsel Dr. Jacobsohn-Doetsch 1950-55, letter by Doetsch to Jacobsohn dated 27 March 1950 and letter by Jacobsohn to Doetsch dated 30 March 1950.

⁶¹ Kruse, *Wagen*, 97;

⁶² Uhlig et al., *Tarnung*, 68-9.

⁶³ BA, Ausland Allgemein, Deutsche Waren-Treuhand-Aktiengesellschaft, "Zusammenfassung der formellen und materiellen Rechtsverhaeltnisse der Beiersdorf Auslandsgesellschaften nach dem Stande vom 31. Maerz 1942," Hamburg, den 6. Juni 1942, 3 (hereafter Waren-Treuhand Report 1942).

⁶⁴ Beiersdorf claimed that the contract with Doetsch was lost during the war. Information about it comes from the postwar negotiations with Doetsch. There was, however, little dispute about the content of the contract. Cf. BA Ausland Ringfirmen, Nachkriegs-Korrespondenz Untersuchungen der USA und Grossbritanniens 1946-1948.

⁶⁵ Aalders and Wiebes, *Art*, 38-45; Uhlig et al., *Tarnung*, 56-7.

⁶⁶ Rousseau et al., "Different", 395.

⁶⁷ Kruse, *Wagen*, 110, 28-32.

⁶⁸ Waren-Treuhand Report 1942.

⁶⁹ Waren-Treuhand Report 1942.

⁷⁰ Waren-Treuhand Report 1942.

⁷¹ Beiersdorf UK, *Ninety-Seven*, 21.

⁷² Ibid.

⁷³ Kobrak and Wuestenhagen, "Investment", 412-8. Uhlig et al., *Tarnung*, 57-61.

⁷⁴ Uhlig et al., *Tarnung*, 59-60.

⁷⁵ Uhlig et al. estimate the total number of approvals at over 500 but less than 1,000. Ibid., 61.

⁷⁶ Waren-Treuhand Report 1942.

⁷⁷ Schroeter, "Risk"; Tolentino, *Multinational*, 159-78.

⁷⁸ For the theoretical distinction of systemic and personal trust, see Luhmann, *Vertrauen*.

⁷⁹ Kruse, *Wagen*, 120.

⁸⁰ Uhlig et al., *Tarnung*, 305.

⁸¹ BA Ausland Allgemein, Written statement by Richard Doetsch for Dr. Brinckmann, dated 28 February 1952. See also BA Ringfirmen, Nachkriegskorrespondenz von großer Wichtigkeit, vor allem Briefwechsel Dr. Jacobson-Doetsch 1950-55, letter dated 4 Mai 1953 Kruse to Jacobson.

⁸² BA Ausland Ringfirmen, Nachkriegs-Korrespondenz Untersuchungen der USA und Großbritanniens 1946-1948, Letter dated 6 October 1947.

⁸³ BA Ausland Ringfirmen, Nachkriegs-Korrespondenz Untersuchungen der USA und Großbritanniens 1946-1948, Letter dated 15 October 1947.

⁸⁴ BA Ausland Allgemein, Written statement by Richard Doetsch for Dr. Brinckmann, dated 28 February 1952.

⁸⁵ BA Ausland Ringfirmen, Nachkriegs-Korrespondenz Untersuchungen der USA und Großbritanniens 1946-1948, Letter dated 30 April 1946, Beiersdorf to Sen. Com. Cillwood, Finance Dept., Reichsbank.

⁸⁶ BA Ausland Allgemein, Written statement by Richard Doetsch for Dr. Brinckmann, dated 28 February 1952.

⁸⁷ BA Ringfirmen, Nachkriegskorrespondenz von großer Wichtigkeit, vor allem Briefwechsel Dr. Jacobson-Doetsch 1950-55, letter dated 22 October 1952, Doetsch to Jacobson.

⁸⁸ About the visits cf. for example BA Ringfirmen, Nachkriegskorrespondenz von großer Wichtigkeit, vor allem Briefwechsel Dr. Jacobson-Doetsch 1950-55, letter dated 30 September 1952, Doetsch to Jacobson, and letter dated 4 Mai 1953 Kruse to Jacobson. BA Ausland Allgemein, Written statement by Richard Doetsch for Dr. Brinckmann, dated 28 February 1952.

⁸⁹ Kruse, *Wagen*, 116; BA, Ausland Allgemein, Umsatze.

⁹⁰ Kruse, *Wagen*, 117. Beiersdorf AG, *100 Jahre*, 84.

⁹¹ BA Ausland allgemein, Aufstellungen Uebersichten 1908-1989 Tochterfirmen, Vertreter, Lizenzpartner, Uebersicht ueber Auslandsgesellschaften [undated, approximately 1967].

⁹² BA Ringfirmen, Nachkriegskorrespondenz von großer Wichtigkeit, vor allem Briefwechsel Dr. Jacobsohn – Doetsch, 1950-55, letter by Doetsch to Jacobsohn, dated 4 Mai 1950.

⁹³ Kruse, *Wagen*, 124.

⁹⁴ Ibid.

⁹⁵ For the dynastic motive of family firms see Casson, "Economics".

⁹⁶ Jones, *Beauty*, 223-4.

⁹⁷ BA Ausland Allgemein, Unser Auslandsgeschaeft 1967.

⁹⁸ Beiersdorf AG, *100 Jahre*, 76.

⁹⁹ BA Ausland Allgemein, Written statement by Richard Doetsch for Dr. Brinckmann, dated 28 February 1952. BA Ringfirmen, Nachkriegskorrespondenz von großer Wichtigkeit, vor allem Briefwechsel Dr. Jacobson-Doetsch 1950-55, letter dated 22 October 1952, Doetsch to Jacobson.

¹⁰⁰ BA Ringfirmen, Nachkriegskorrespondenz von großer Wichtigkeit, vor allem Briefwechsel Dr. Jacobson-Doetsch 1950-55, letter dated 26 September 1952, Peloille to Jacobsohn. Compare also letter dated 14 October 1952, Gustin to Jacobson and letter dated 20 October 1952, Jacobson to Gustin.

¹⁰¹ Kruse, *Wagen*, 139.

¹⁰² Kruse, *Wagen*, 139-40.

¹⁰³ Jones, *Beauty*, 223; Foreman-Peck, *Smith*, 63.

¹⁰⁴ Beiersdorf UK, *Ninety-Seven*, 14.

¹⁰⁵ BA Ausland Allgemein, Umsaetze 1959-62, Betrachtung ueber die Entwicklung der Umsaetze und Lizenzertraege in der Auslandsfabrikation, Vergleich 1958:1959, 7. See also Schroeter, "Marketing", 639-40.

¹⁰⁶ Foreman-Peck, *Smith*, 132.

¹⁰⁷ *Ibid.*, 137.

¹⁰⁸ Beiersdorf UK, *Ninety-Seven*, 63.

¹⁰⁹ Schroeter, "Marketing", 639-41. A new marketing concept for Nivea was developed in 1967, and the brand was re-launched in Germany in 1970. See Schroeter, "Erfolgsfaktor", 1109-11.

¹¹⁰ Jones, "Blonde"; Jones, *Beauty*, 366.

¹¹¹ The regular visits and correspondence used to re-establish relationships can be said to have facilitated a reflexive familiarization that initiated and reinforced trust building. Giddens, "Risk".

¹¹² Schroeter, "Marketing", 639-641. See also the "Nivea Brand Philosophy", reprinted with an introduction in Schroeter, "Nivea".