Management and Networks – To what extent were Free Standing Companies Controlled from the Home Country? With reference to four Scottish examples, 1865 – 1900.

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Abstract

The free-standing company was an important form of foreign investment in the pre-1914 period, although its implications for economic development in home and host countries remain unclear. Scotland was home to at least 400 free-standing companies between 1862 and 1900. A core debate around these firms has been the level to which they were entrepreneurial firms or purely devices for speculation. This paper examines four of these companies to analyze the role of their Scottish head offices. The paper examines two companies operating in Australasia and two operating in the USA. This paper finds that the two firms operating in Australasia were more effective in establishing control over their operations there by devising clear command structures. The Australasian-hosted companies were more adept than the U.S.-based firms at using their head office presence to establish marketing links in the United Kingdom. The paper concludes that role of the head office is important for free-standing companies in establishing competitive advantage for the company in its operations in the host country.

1. Introduction

In the mid to late nineteenth century one of the main vehicles of foreign investment was the Free Standing Company. The Free Standing Company (FSC) is a fascinating concept in business history; FSCs are companies in the legal sense that have their headquarters situated on one country while having almost all their operations situated in another country.[1] Scotland was home to about 400 such companies between 1862 and 1900;[2] of these numerous firms this paper will focus on the structure of four FSCs for which a reasonable body of archival data remains. This paper will focus on the level of managerial control actually held in Scotland by the home office of four different FSCs. Wilkins proposes that many FSCs failed as a result of their failure to develop a suitable system of management, particularly when the US was the host nation.[3] This paper will investigate the level of managerial control that the home office in Scotland had over operations in the host country and what role this had in the fortunes of these firms. Michael Porter has argued that the home country of a multinational is crucial to the development of its subsidiaries abroad particularly with reference to the importance of conditions in the domestic market for the products of a firm.[4] In this context firms developed their competitive advantage according to institutions or demand patterns at home which forced them to become 'world class' before extending this competitive advantage abroad on favourable terms. In the case of the FSC such competitive advantage could not be developed before the firm moved abroad. The firm had instead to adapt to the market and institutional conditions of the host country and develop its competitive advantage in that way. This is easier where companies are involved in extractive industries where product development costs are lower – however there still remained the challenge of resource allocation and efficient managerial control is considered to be important in achieving this.

Managerial control in this case is considered in the context of executive and organisational decisions being taken across distance and by those on the principal side rather than the agents. FSCs by nature have internal markets in information as well as finance and this paper will examine the frameworks used to control these internal markets. The four firms of interest are those highlighted in **Table 1**.

[1] The label 'Free Standing Company' was first applied by the influential US historian of international business history Mira Wilkins in Mira Wilkins, "The Free-Standing Company, 1870 - 1914: An Important Type of British Direct Foreign Investment," *Economic History Review series II* XLI (1988). This has prompted much further study since by a variety of historians; particularly Geoffrey Jones, Jaques Hennart, Mark Casson, T. A. B. Corley, Stanley Chapman, Rory Miller and Keetie E. Sluyterman. Previous writers have looked at FSCs before Wilkins defined them as such, notably Clark C. Spence, *British Investments and the American Mining Frontier, 1860-1901* (New York City: 1958)., W. Turrentine Jackson, *The Enterprising Scot: Investors in the American West after 1873* (Edinburgh, UK: 1968)., and perhaps most influentially Charles A. Jones, *International Business in the Nineteenth Century: The Rise and Fall of a Cosmopolitan Bourgeoisie* (Brighton, UK: 1987). In this case Empire countries such as Australia or New Zealand are considered to be separate countries from the UK.

[2] See the National Archives of Scotland's (NAS) BT2 series, which is the repository for company registrations made before 1985 at Companies House in Edinburgh. For the purposes of this paper 'Scottish' is taken to mean companies that are registered there as it is assumed those simply seeking a UK registration would most likely have done this in London.

[3] Wilkins, "The Free-Standing Company, 1870 - 1914: An Important Type of British Direct Foreign Investment," p. 275.

[4] Michael Porter, *The Competitive Advantage of Nations* (Basingstoke, UK: 1990).

Table 1 – The Top Ten Scottish FSCs 1862-1886 by nominal capital[5].

Rank	Name	Nominal Capital (£,000s)[6]	Paid Capital (£,000s)[7]	Year Registered	Lifetime	Industrial Classification	Host Countr(ies)
1	**The New Zealand and Australian Land Company Limited.**	**2000**	**1500**	**1866**	**11**	**Agricultural Production - Livestock**	**NZ, Australia**
1	**The New Zealand and Australian Land Company Limited. [2]**	**2000**	**2000**	**1877**	**91**	**Agricultural Production - Livestock**	**NZ, Australia**
3	La Platense Flotilla Company Limited.	1000	519	1886	15	Water Transportation	Argentina, Uruguay
4	**The California Redwood Company Limited.**	**900**	**468**	**1883**	**7**	**Forestry**	**USA**
5	**Arizona Copper Company Limited.**	**875**	**700**	**1882**	**10**	**Metal Mining**	**USA**
5	**Arizona Copper Company Limited. [2]**	**875**	**791**	**1884**	**35**	**Metal Mining**	**USA**
7	Carpio Copper and Sulphur Company. (Limited)	600	97	1872	9	Metal Mining	Spain
7	Canadian Copper Pyrites and Chemical Company Limited.	600	295	1872	8	Metal Mining	Canada
7	The Swan Land and Cattle Company Limited.	600	600	1883	42	Agricultural Production - Livestock	USA
10	**Canterbury and Otago Association Limited.**	**500**	**500**	**1865**	**12**	**Agricultural Production - Livestock**	**NZ**
10	Irrawaddy Flotilla Co. Limited.	500	400	1875	73	Water Transportation	Burmah
10	American Land and Colonisation Company of Scotland Limited.	500	59	1881	25	Real Estate	USA
10	Scottish American Accident Insurance Company Limited.	500	0	1881	0	Accident & Health Insurance	USA

[5] These figures are taken from the NAS series BT2 files for these companies. See BT2/197, 229, 415, 441, 637, 1022, 1025, 1144, 1225, 1261, 1375 and 1502. Obviously some of these companies are infact failed promotions, but are included to give the reader an indication of the sort of companies that were promoted.

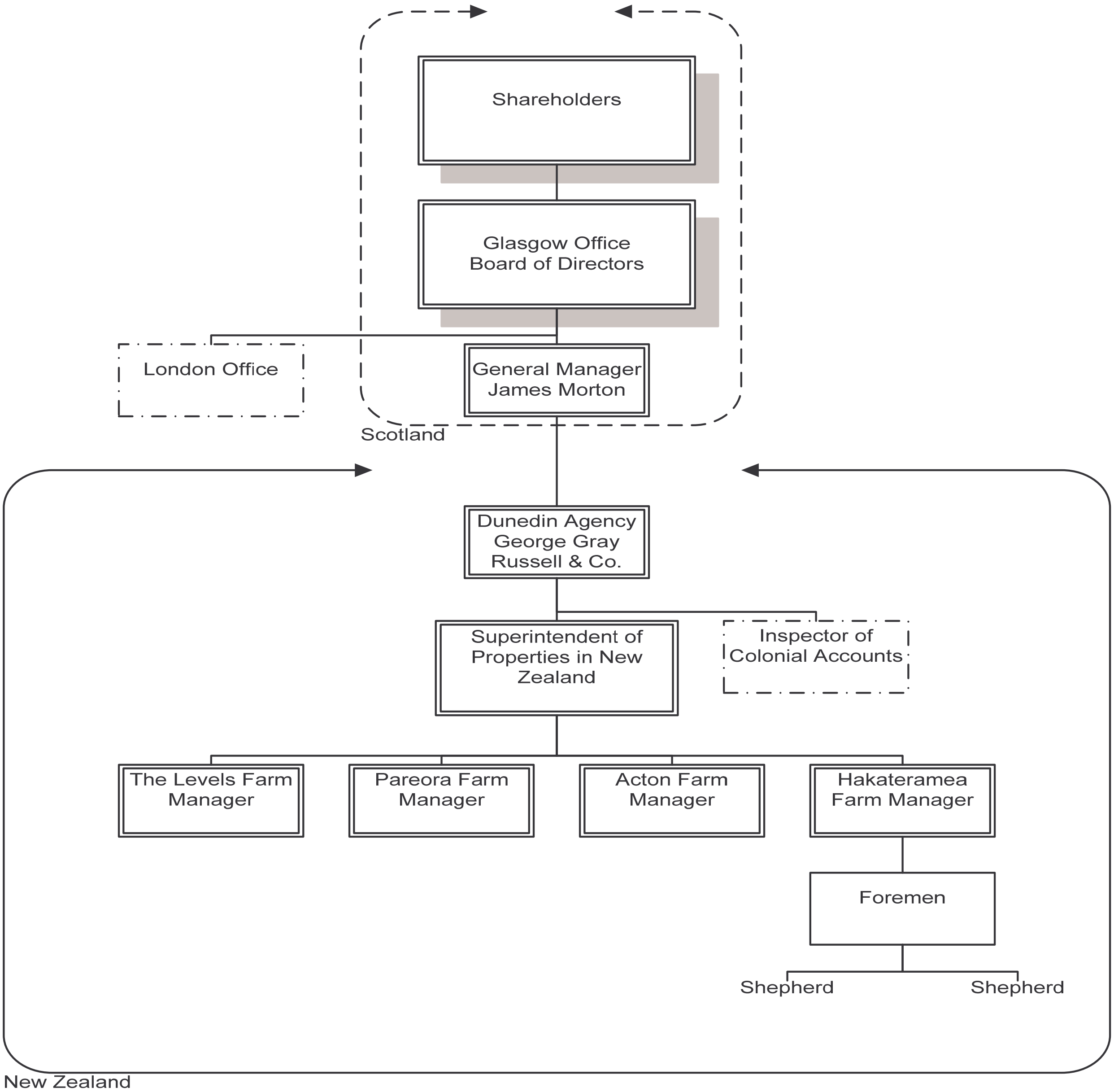
[6] Nominal Capital as registered when the company was initially registered. This may have been increased or decreased later.

[7] Paid Capital is taken from the highest level of paid capital reported while the company remained with its initial level of nominal capital.

2.1 The Canterbury & Otago Association and the New Zealand & Australian Land Company

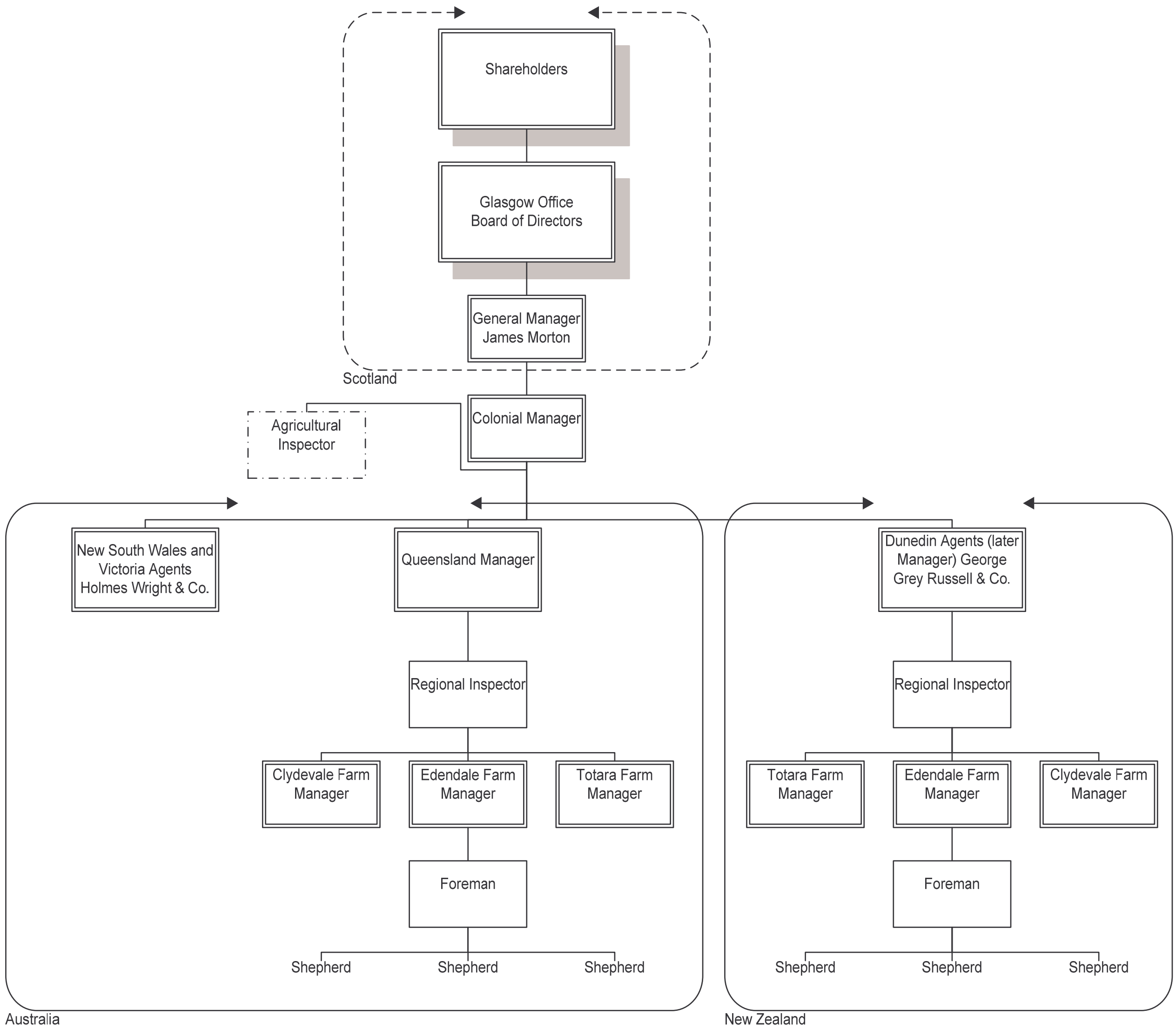
Figures 1-4 are complete as possible organisation charts for the four companies I have examined in detail. It is intended that these show the complexity of these organisations; vertical relationships represent principals and agents while horizontal ones represent officials or organisational units with an advisory/consultative role or a representative role, for instance the Canterbury & Otago's (C&O) London Office in **Figure 1**.

Figure 1 Canterbury and Otago Association Company Structure 1866-77.[8]



[8] This chart is mostly based on the minutes of meetings of the Board of the C&O (which the General Manager also attended). These can be consulted in NAS GD435/1 and 2. In addition the autobiography of William Soltau Davidson, who was recruited in Scotland and spent the early part of his career with the C&O working in New Zealand was invaluable in filling in the gaps. See William Soltau Davidson, *William Soltau Davidson, 1846 - 1924* (Edinburgh, UK: 1930).

Figure 2 New Zealand and Australian Land Company Structure 1866-77.[9]



In both of these companies, Glasgow based but with their core business lying in sheep farming in New Zealand a Scottish based General Manager takes most key decisions with reference to the Board. At the New Zealand and Australian Land Company (NZ&A) important investment decisions were theoretically supposed to be relayed by the Dunedin, Melbourne, or Brisbane agents back to the board for evaluation; these agents wrote to the board every month sending an accounting summary and with information about important developments. Using the information given the board made decisions to be sent back to Australasia. This system was established very early on the company's development although cash control was not developed as strongly as it might have been with many decisions taken by local managers before a reply giving permission (taking a minimum of four months) was obtained.[10] The Dunedin, Melbourne and Brisbane agents had a pivotal role in this as they were responsible for the allocation of funds sent out to the colonies as share capital was called up in the late 1860s. Huge sums were invested firstly in purchasing properties and then improving them although in late 1867 the NZ&A

[9] This chart is based on the minutes of the Board meetings of the NZ&A; see NAS GD435/7 and 8.
[10] We know it took this long because letters were frequently reproduced in the minute books along with the date that they were sent from New Zealand/Australia, and sometimes even the route that the post took (via Brindlisi or San Francisco). See National Archives of Scotland GD435/1-7. The copyright status of these books is uncertain but it is hoped that no infringement is caused by citing them.

strategically decided to spend just £3,750 per month although this proved difficult to enforce with numerous stories of managerial extravagance surfacing. The C&O was more fortunate in New Zealand in that its runs were situated further north in a more temperate location better suited to the introduction of English grass for grazing; the NZ&A was less fortunate in its choice of land in the colder south of the South Island. Over a ten year period the C&O were able to gain more effective results while investing four times less per acre than the NZ&A had.[11]

In addition to overseeing spending on this improvement process the Head Office had an important procurement role in obtaining the resources used for improvement; the Head Office purchased machinery, grass seed, rams for breeding purposes, thoroughbred horses, and even oversaw the purchase of stoats and weasels to attempt to control the rabbit population in the colonies.[12] The Head Office also recruited career staff for all levels of the company in Scotland. The regional inspectors and supervisors mentioned in **Figures 1 and 2** were trained in a cadet system where they served time as shepherds and farm hands to educate them about the workings of a sheep run.[13] Labourers were also recruited when necessary from the local populace.[14] There was also a role for the Head Office in marketing; in the early years both companies relied upon wool exports and links with London based woollen merchants were closely forged. Later in the 1880s the Head Office organised a sales network in the London area to oversee the distribution of frozen meat when the company diversified into that market, the demand in the already densely populated London area for meat imports being much higher than in Scotland.[15] The Head Offices in both companies had numerous roles although there were economies in managing two similar companies; both firms in fact shared a common General Manager in James Morton, whose office with a small staff was also used as the Head Office and boardroom of both companies.[16] Although it is not surprising that the two companies were merged in 1878 to form a larger NZ&A the two companies had a partly separate shareholder base, and totally distinct structures and personnel in New Zealand from each other prior to merger, particularly after the NZ&A replaced George Grey Russell & Co. with a more permanent Dunedin management staff. For these companies then Morton's joint Head Office played a vital role as it procured scarce resources not accessible in the colonies for their activities there and could not be considered an unnecessary burden as its role was essential to generating revenue, even if indirectly.

2.2 The California Redwood Company and the Arizona Copper Company

Figures 3 and 4 show the structures of the two US FSCs studied here, the California Redwood Company (CRC) and the Arizona Copper Company (ACC). The California Redwood Company was formed in 1883 by an Edinburgh syndicate (which already was heavily involved in cattle FSCs) in response to a pitch by James D. Walker who was seeking capital to exploit two large lumber estates in California.[17] The syndicate agreed to raise as much as £732,000 in cash and shares to purchase this property; at least another £200,000 in all was outlaid on apparent improvements to the sawmills and railways.[18] The CRC did not last long, being wound up in 1885 amid allegations of illegal land

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[11] The C&O had managed to support 113,000 sheep on its 28,000 acre Levels estate in Canterbury province by 1878 while spending only £2 1s per acre; the NZ&A supported a similar number of sheep at Edendale in Southland province only after spending £8 2s per acre - Davidson, *William Soltau Davidson, 1846 - 1924*, p. 93.
[12] Ibid., p. 48.
[13] Ibid. Davidson's account of his recruitment and early life as a farm hand in New Zealand provides the best account of a career with the C&O.
[14] Colin Williscroft, ed., *A Lasting Legacy - William Davidson 125* (Auckland, New Zealand: 2007), p. 29.
[15] See James Belich, *Paradise Reforged: A History of the New Zealanders from the 1880s to the Year 2000* (Honolulu, Hawaii: 2001), p. 85. 'In 1907 80 per cent of the meat sold in London was imported, mostly frozen, while 80 per cent of the meat sold in Dundee was home-produced.'
[16] See the minutes of both companies. NAS GD435/2 minute 30/04/1872 tells us Morton's remuneration was set at £1,250 per annum but he was expected to pay his own office expenses such as staffing, rent and utility costs.
[17] See minute of shareholder EGM 28th April 1885, NAS GD282/13/142.
[18] Jackson, *The Enterprising Scot: Investors in the American West after 1873*, p. 222.

grabbing.[19] In reality however the failure of the Edinburgh syndicate to establish an effective framework for management seems to have been more costly. In **Figure 3** everyone below the Edinburgh office was based in California, and further the office of the agents in San Francisco was some 200 miles distant from the company's main centre of operations at Eureka where David Evans, the General Manager in the US was based. Evans was responsible for both sites and associated activities such as shipping and the two railways attached to the company. Evans later became the target for allegations of extravagance and mismanagement from shareholders back in Scotland while the San Francisco agents, Russ & Co. were accused of not overseeing Evan's activities closely enough. While it appears that the company did have significant lumber resources at its disposal the company never produced the volumes of timber required to break even, and relations between the Scottish principals and Californian agents broke down within a year of the company's founding, making the Scots reluctant to release more funds to California as they were not seeing any returns.[20]

The Arizona Copper Company (**Figure 4**) formed in 1882 had similar origins as a pitched promotion, in this case by Frank Underwood of Kansas City who also pitched several ranching schemes to Scottish investors.[21] This company had the highest nominal capital of any Scottish mining FSC at £875,000; it was second only in UK terms to the infamous Emma Silver Mining Company of 1872.[22] Unlike the Emma Company the ACC managed to survive in the long term, being sold to the American Phelps Dodge Corporation in 1921 for $50 million worth of Phelps Dodge stock.[23] However it almost did not survive beyond 1884; and it did only thanks to a re-registration which allowed a financial reconstruction – a trust company was formed in Edinburgh alongside the ACC to act as an in-house financier[24]. The reason for the ACC's early difficulty was that as was often the case with mining FSCs the cost of smelting the ore to extract the copper onsite was initially neglected along with the need to invest further in rail transport to link the mine site with the rail network. As with the CRC investment was still needed to make the assets reflect the initial sale value. Further the manager inherited from the previous owners quickly had to be removed after an emissary sent from Edinburgh reported that he was overspending on improving the smelters and had lost the confidence of his mining captains.[25] Underwood was also removed from his initial position as agent and the firm ran more directly by a new managing board made up of the mining captains and railway manager reporting back to the board in Edinburgh.[26] In the ACC's case once the mines were well established management over time was simplified by their close geographical proximity to the company's administration centre at Clifton Arizona.

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[19] NAS GD282/13/125 provides a good roundup of this. Jackson blames this scandal for the CRC's failure, something which is unfortunately picked up by Wilkins in Mira Wilkins, *The History of Foreign Investment in the United States to 1914* (Cambridge, Mass.: 1989), p. 234.

[20] See NAS GD282/13/143 – small booklet entitled 'The California Redwood Company Limited: Report submitted to the shareholders by Messrs Blyth and Menzies on their return from California' mentions that it had been hoped to produce 50m feet per annum of timber, but it was found that the sawmill capacity was not up to this level in reality, p.10.

[21] See Jackson, *The Enterprising Scot: Investors in the American West after 1873*. chapters III and V for a good summary of these companies fortunes.

[22] For a good history of the Emma debacle see Spence, *British Investments and the American Mining Frontier, 1860-1901*, pp. 139 - 90.

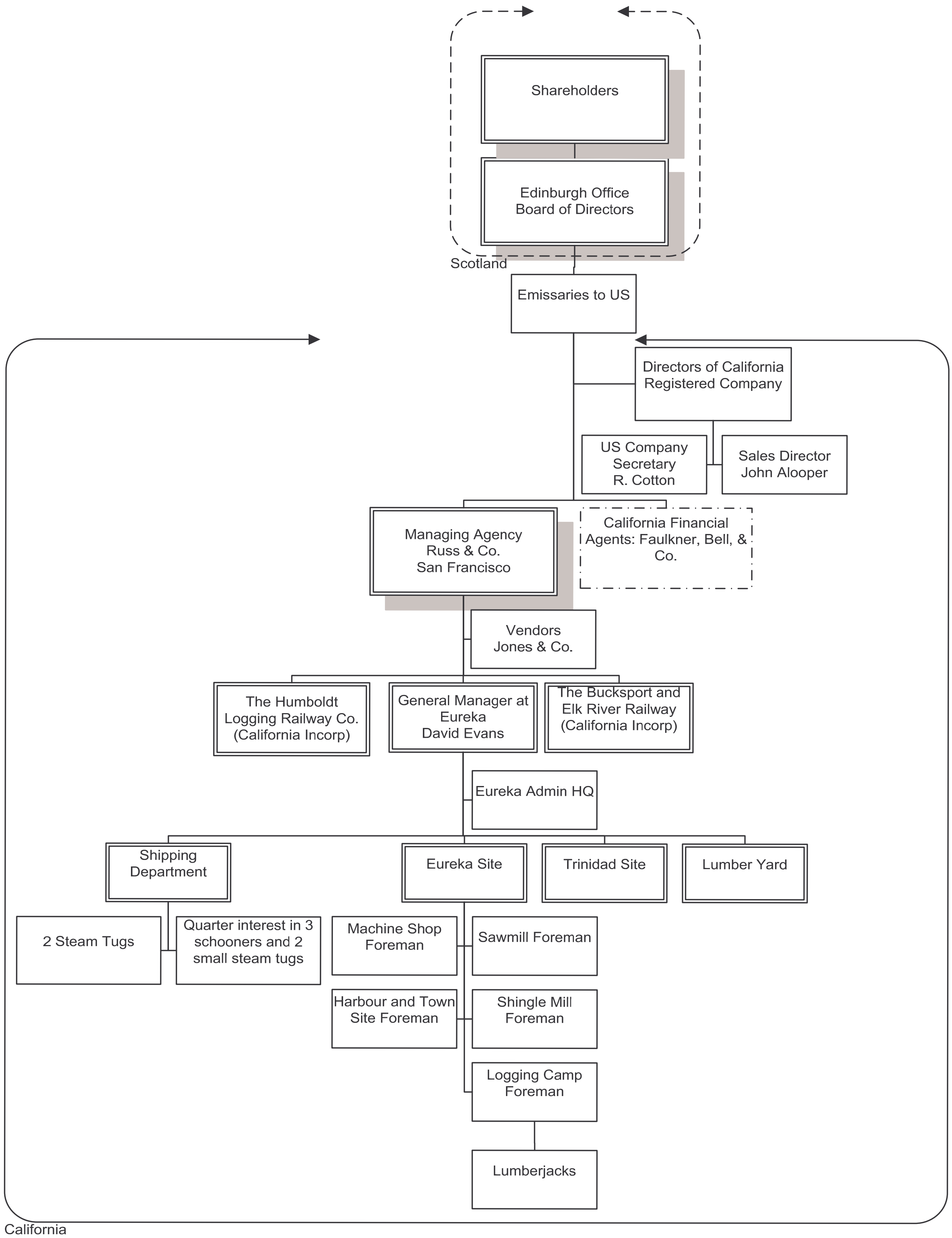
[23] Charles K. Hyde, *Copper for America: The United States Copper Industry from Colonial Times to the 1990s* (Tucson, Ariz.: 1998).

[24] See the NAS file GD282/13/154 for various documents relating to the relationship between ACC and the Arizona Trust and Mortgage Company Ltd.

[25] See NAS GD282/13 – report from J. A. Robertson's trip to Arizona, June 1884.

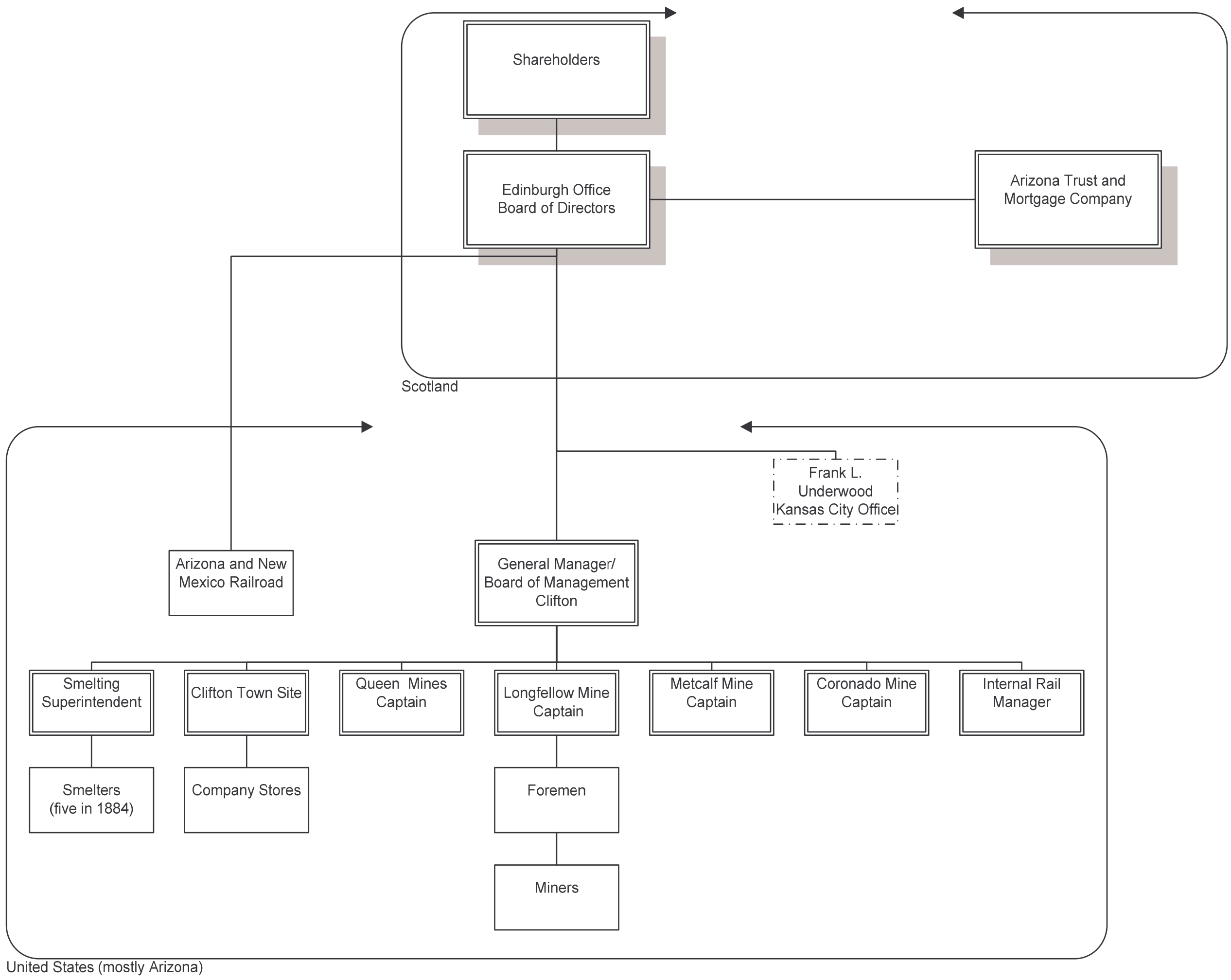
[26] Ibid.

Figure 3 California Redwood Company Structure 1883-85.[27]



[27] This has been extrapolated from an examination of a collection of documents on this company held at NAS in GD282/13; particularly of use was the reports and correspondence file GD282/13/123 and the scrapbook GD282/13/143. NAS GD282/13 is part of a much wider collection of documents under NAS GD282 from the Edinburgh law firm Messrs Davidson & Syme W.S., 1468-1977. Access to this collection and permission to publish the information regarding the ACC and CRC in this paper has been kindly granted by their successor firm Dundas & Wilson CS LLP.

Figure 4 Arizona Copper Company Structure c. 1884.[28]



3. Conclusion

The experience of these four companies tells us that FSCs were difficult organisations to manage. Managing assets based on a different continent (and in the cases of the C&O, NZ&A and CRC multiple sites) presented a considerable challenge to capitalists mostly experienced with managing single site businesses. In the case of the two Australasian firms and to a limited extent the ACC these disadvantages were overcome by firstly setting up clear monitoring procedures to ensure resources were not being misallocated (monthly reporting from operational centres back to the Head Office was a key element of this) and to ensure that Scottish based board members and management had information to base their decisions on. The ACC relied upon American technology in smelting (it purchased its hardware from one firm based in San Francisco and another in Chicago)[29] but did manage to recruit some Scottish personnel to send to Arizona;[30] the C&O and NZ&A relied to a large degree upon Scottish recruited personnel, raw material inputs, farming knowledge and distribution networks back at home.

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[28] This has been extrapolated from an examination of a collection of documents on this company held at NAS in GD282/13; particularly of use in doing this has been the report of Mr Robertson's visit to the mines – see NAS GD282/13/154.

[29] Hyde, *Copper for America: The United States Copper Industry from Colonial Times to the 1990s*, p .118.

[30] The Superintendent of smelting after 1884, James Colquhoun (1857-1954), and later General Manager after 1892, was Scottish. He was joined by Mr Gibb, a Scotsman who had 'large experience' of smelting in England and America – J. A. Robertson's report NAS GD282/13/154.

Figure 5 – Casson's Four Types of Free Standing Company.[31]

Does the FSC Internalise:	Technology	Not Technology
Information	A	B
Not Information	C	D

Type A: NZ&A after 1877 when refrigeration etc technology is imported to New Zealand. Arguably also NZ&A pre 1877 due to grass and animal imports – 'terraforming'.
Type B: C&O and pre 1877 NZ&A which import husbandry knowledge and specialism to Australia and New Zealand.
Type C: None of these firms. This may most frequently apply in cases where a domestic company wants to protect a patent in the host country so sets up an FSC to reduce the risk to itself.
Type D: California Redwood Company and Arizona Copper Company. Both of these appear to have been happy to rely on the assets that they purchased and received US knowledge about their industries. This makes them more typical of the speculative style of FSC which represented more of a portfolio investment as home office control did not fully expand to the host country.

As **Figure 5** above demonstrates the NZ&A and C&O were more effective in internalising the trade in information in both directions between their head office and their operational base. Although agency problems persisted an effective solution was found to run the necessary internal market in information flows from principal to agent and back again. Further the head office had a vital role in capturing technological knowledge and exporting it to Australia and New Zealand without any external cost, in addition via recruitment the principals were able to pick agents that were likely to be reliable. The Glasgow office also handled relations with wool dealers in London – later, after moving to Edinburgh in 1879 it would handle the marketing of frozen mutton and dairy products imported from New Zealand. Meanwhile the ACC marketed its copper outputs mostly in the US and while the CRC did attempt to penetrate the home market by sending samples of redwood to trade shows it never successfully produced enough redwood to sell in volumes back in the UK market. The experience of these four companies would suggest therefore that the level of control from the home office in Free Standing Companies matters in terms of their success at developing as businesses; control did not successfully extend in all cases and when it did not FSCs were essentially vulnerable to schism into two separate firms with conflicting aims. Scottish control did successfully extend across borders but appears to have been more effective at doing so when presented with a blank institutional canvas as in Australia and New Zealand. In effect the C&O and NZ&A were able to treat Australasia as an extension of the home operating environment despite its being 10,000 miles distant from home. The C&O and NZ&A were able to gain a competitive advantage based on their knowledge, communicated from agent to principal, of agricultural conditions in both countries and use this to add value to their products for marketing back in Britain. The CRC and ACC were not successful in adding value to their products in this sense – the CRC relied on its US agents for their knowledge of the timber industry while the ACC relied entirely on US based mining engineers and chemists of uncertain background to exploit its copper reserves. The CRC and ACC, like many other extractive Free Standing Companies

[31] I have devised the diagrammatic format, but the original idea comes from Mark Casson, "An Economic Theory of the Free-Standing Company," in *The Free Standing Company in the World Economy, 1830-1996*, ed. Mira Wilkins and Harm Schroter (Oxford, UK: 1998).

failed to develop a strategy to coherently engage their US agents in exploiting the value creation opportunities open to them and ran into rapid financial difficulty as a result.