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

This paper is a short summary of the main issues affecting the two thesis chapters that I am presently working on, focusing on the role of Scottish based Free Standing Companies (FSCs) in two distinct world regions – the USA and Australasia. The Free Standing Company is an interesting 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 This makes the FSC a distinct type of entity from the conventional multinational which has usually developed its business model in one country before replicating these operations overseas. It does have similarity and possible crossover with the type of multinational that integrates backwards across borders to gain access to raw materials such as Unilever in Congolese Palm Oil or Ford in Brazilian Rubber, particularly as FSCs were most frequently found in primary resource based industries (mines, plantations, livestock farming) or services (utilities, banks, railways) rather than manufacturing.² Scotland was home to about 400 such companies between 1862 and 1900³; of these numerous firms this paper will focus on the structure of four FSCs for which a reasonable body of archival data remains. The issue of interest here is the level of managerial control actually held by in Scotland; were these companies managed effectively from Scotland and did this have a Chanderian role in their success; or were these firms actually speculations that were managed in their host countries?⁴ Or perhaps just facilitators for wider trading networks? 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 M 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 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 C. C. Spence, *British Investments and the American Mining Frontier, 1860-1901* (New York: 1958)., W. T. Jackson, *The Enterprising Scot: Investors in the American West after 1873* (Edinburgh: 1968)., and perhaps most influentially C. A. Jones, *International Business in the Nineteenth Century: The Rise and Fall of a Cosmopolitan Bourgeoisie* (Brighton: 1987). In this case Empire countries such as Australia or New Zealand are considered to be separate countries from the UK.

² See chapter 3 of my thesis (still in development) or the seminar paper I presented to EH590 last June for more information on this topic.

³ 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.

⁴ For an excellent summary of the background to this idea see the opening chapter of Alfred D. Chandler, *Scale and Scope: The Dynamics of Industrial Capitalism* (Cambridge, MA: 1990).

Table 1 – The Top Ten Scottish FSCs 1862-1886 by nominal capital⁵.

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

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 London Office in **Figure 1**.

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.

Figure 1 Canterbury and Otago Association Company Structure 1866-77⁸.

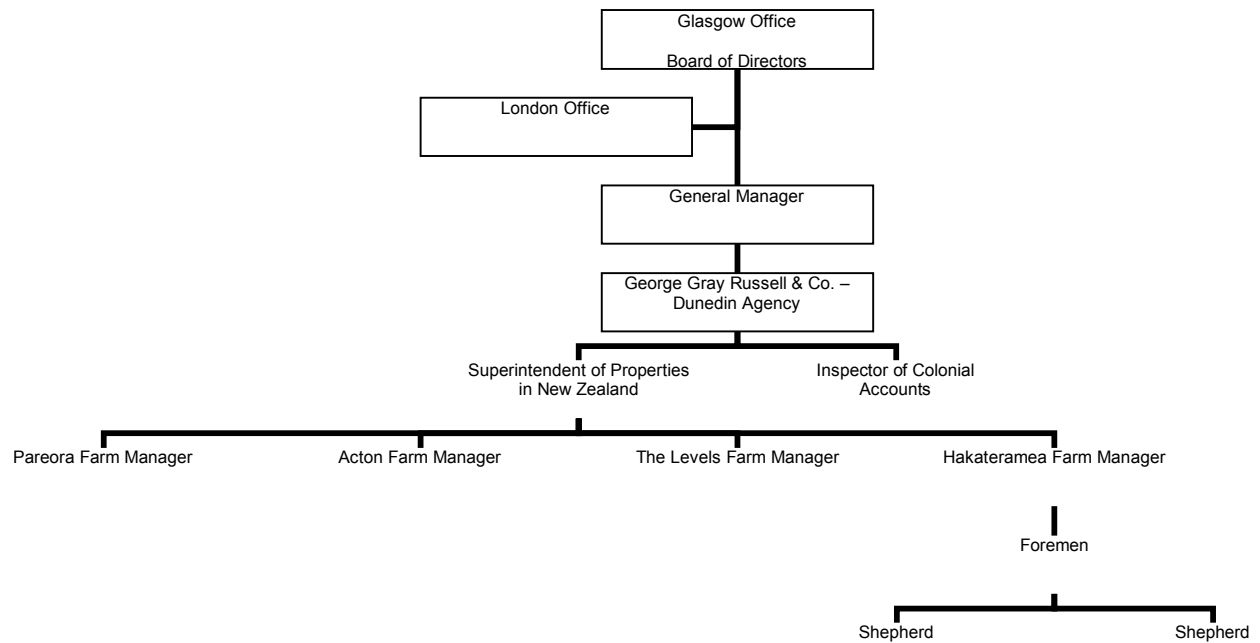
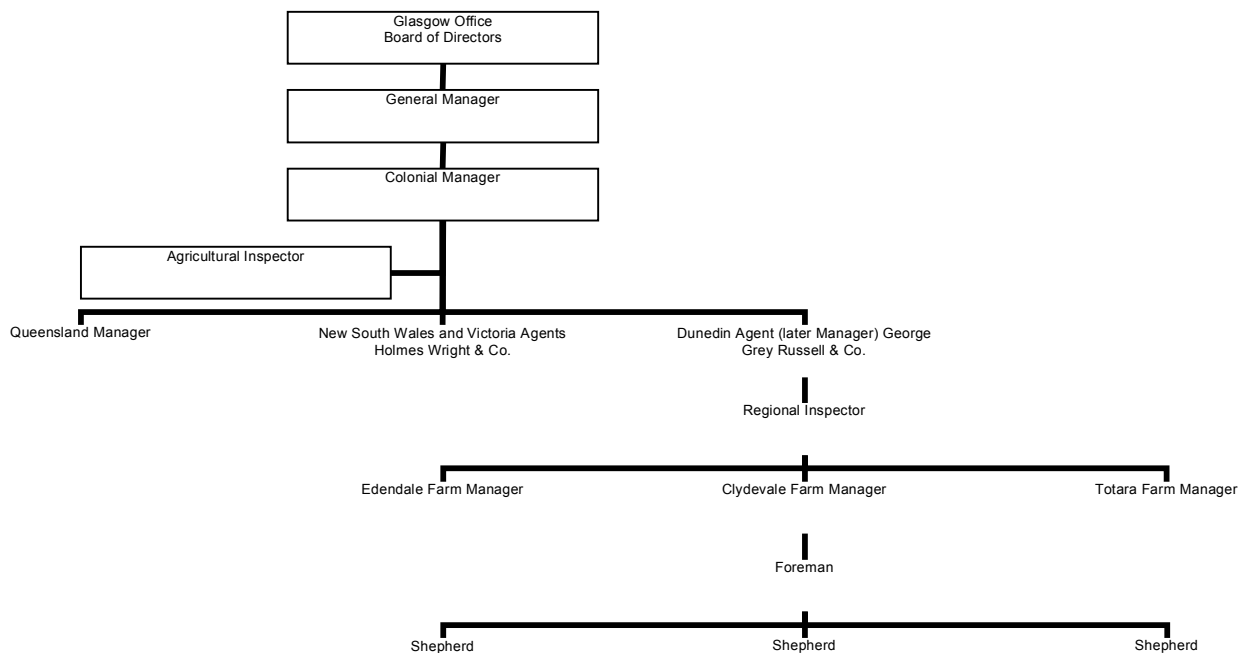


Figure 2 New Zealand and Australian Land Company Structure 1866-77⁹.



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 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

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 W. S. Davidson, *William Soltau Davidson, 1846 - 1924* (Edinburgh: 1930).

⁹ This chart is based on the minutes of the Board meetings of the NZ&A; see NAS GD435/7 and 8.

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 obtained¹⁰. 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 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 had¹¹.

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 not only the regional inspectors and supervisors mentioned in **Figures 1 and 2** but also personnel such as shepherds. 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 Head Offices in both companies had numerous roles although there were economies in managing two similar companies; both firms infact 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.¹³ 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.

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). Although this part of the thesis is still very much a Work in Progress it is intended to contrast the fortunes of these two firms with those of the NZ&A and C&O. 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.¹⁴ 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

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). Telegraph reached Australia in 1871, perhaps someone reading knows when it reached NZ or how to find out?

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 Soltan Davidson, 1846 - 1924*, p. 93.

¹² Ibid., p. 48.

¹³ 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.

¹⁴ See minute of shareholder EGM 28th April 1885, NAS GD282/13/142.

outlaid on apparent improvements to the sawmills and railways.¹⁵ The CRC did not last long, being wound up in 1885 amid allegations of illegal land grabbing.¹⁶ 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.¹⁷

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.¹⁸ 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 1872.¹⁹ 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.²⁰ 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 financier²¹. 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.²² 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.²³ 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.

¹⁵ Jackson, *The Enterprising Scot: Investors in the American West after 1873*, p. 222.

¹⁶ 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 M. Wilkins, *The History of Foreign Investment in the United States to 1914* (Cambridge, MA: 1989), p. 234.

¹⁷ 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.

¹⁸ See Jackson, *The Enterprising Scot: Investors in the American West after 1873*. chapters III and V for a good summary of these companies fortunes.

¹⁹ For a good history of the Emma debacle see Spence, *British Investments and the American Mining Frontier, 1860-1901*, pp. 139 - 190.

²⁰ C. K. Hyde, *Copper for America: The United States Copper Industry from Colonial Times to the 1990s* (Tucson, AZ: 1998).

²¹ See the NAS file GD282/13/154 for various documents relating to the relationship between ACC and the Arizona Trust and Mortgage Company Ltd.

²² See NAS GD282/13 – report from J. A. Robertson's trip to Arizona, June 1884.

²³ Ibid.

Table 2 - New Zealand and Australian Land Company Profit Summary 1873-6.²⁴

Year	1873 (£)	1874 (£)	1875 (£)	1876 (£)	Total (£)	Average of Four Years (£)
Returns from Wool	103,611.25	101,510.99	99,532.93	90,251.00	394,906.17	98,726.54
Returns from Sheep	32,189.59	56,003.78	30,876.08	29,442.35	148,511.80	37,127.95
Returns from Cattle	7,465.43	10,694.63	10,080.55	15,240.15	43,480.76	10,870.19
Returns from Horses and Sundries	2,533.43	7,957.32	2,699.53	6,021.69	19,211.97	4,802.99
Gross Colonial Returns	145,799.70	176,166.72	143,189.09	140,955.19	606,110.70	151,527.68
Less Colonial working expenses and Depreciation of Implements	45,709.99	49,924.95	52,350.37	60,553.38	208,538.69	52,134.67
Net colonial Profit	100,089.71	126,241.77	90,838.72	80,401.81	397,572.01	99,393.00
Interest	16,911.63	18,779.13	21,696.17	23,711.17	81,098.10	20,274.53
Home Charges	3,565.02	4,041.83	4,054.48	4,241.79	15,903.12	3,975.78
Total Interest and Home Charges	20,476.65	22,820.96	25,750.65	27,952.96	97,001.22	24,250.31
Net Divisible Profit	79,613.06	103,420.81	65,088.07	52,448.85	300,570.79	75,142.70
Rate Percent of Dividend Paid	6%	7.50%	6%	5%		

Table 3 Canterbury and Otago Association Profit Summary 1873-6.²⁵

Year	1873 (£)	1874 (£)	1875 (£)	1876 (£)	Total (£)	Average of Four Years (£)
Returns from Wool	68,913.35	77,179.18	68,634.58	54,467.99	269,195.10	67,298.78
Returns from Sheep	20,073.34	20,193.48	15,052.48	21,722.88	77,042.18	19,260.55
Returns from Cattle	683.25	197.78	396.25	231.55	1,508.83	377.21
Returns from Horses and Sundries	3,141.23	2,008.65	2,257.74	841.75	8,249.37	2,062.34
Gross Colonial Returns	92,811.17	99,579.09	86,341.05	77,264.17	355,995.48	88,998.87
Working Expenses and Depreciation of Buildings, fences and Implements	28,011.25	31,055.72	31,241.71	31,495.57	121,804.25	30,451.06
Written off Right of Tenure	5,314.42	9,789.73	3,344.32	1,553.31	20,001.78	5,000.45
Exceptional Colonial Charges	795.00	795.00	795.00	795.00	3,180.00	795.00
Less Colonial working expenses and Depreciation of Implements	34,120.67	41,640.45	35,381.03	33,843.88	144,986.03	36,246.51
Net colonial Profit	58,690.50	57,938.64	50,960.02	43,420.29	211,009.45	52,752.36
Interest	16,114.50	16,362.57	17,003.26	16,128.10	65,608.43	16,402.11
Home Charges	2,766.56	3,866.36	2,504.59	2,716.63	11,854.14	2,963.54
Total Interest and Home Charges	18,881.06	20,228.93	19,507.85	18,844.73	77,462.57	19,365.64
Net Divisible Profit	39,809.44	37,709.71	31,452.17	24,575.56	133,546.88	33,386.72
Rate Percent of Dividend Paid	8%	8%	6%	5%		

²⁴ NAS GD435/2 08/01/1877.²⁵ Ibid. Mathematical errors in original corrected.

Table 4 New Zealand and Australian Land Company Land Holdings, 1877.²⁶

	Freehold			Leasehold		
Region	Acres	Cost and Fencing (£)	Cost per acre (£)	Acres	Cost and Fencing (£)	Cost per acre (£)
Victoria and NSW	31,431.00	42,038.57	1.34	582,000.00	169,625.62	0.29
Queensland	347.00	400.85	1.16	1,756,453.00	78,194.80	0.04
New Zealand	198,070.00	1,027,695.42	5.19	162,537.00	25,012.26	0.15
Total	229,848.00	1,070,134.84	4.66	2,500,990.00	272,832.68	0.11

Table 4.4 Canterbury and Otago Association Land Holdings 1877.²⁷

Freehold			Leasehold		
Acres	Cost and Fencing (£)	Cost per acre (£)	Acres	Cost and Fencing (£)	Cost per acre (£)
103,349.00	501,376.60	4.85	348,912.00	98,579.00	0.28

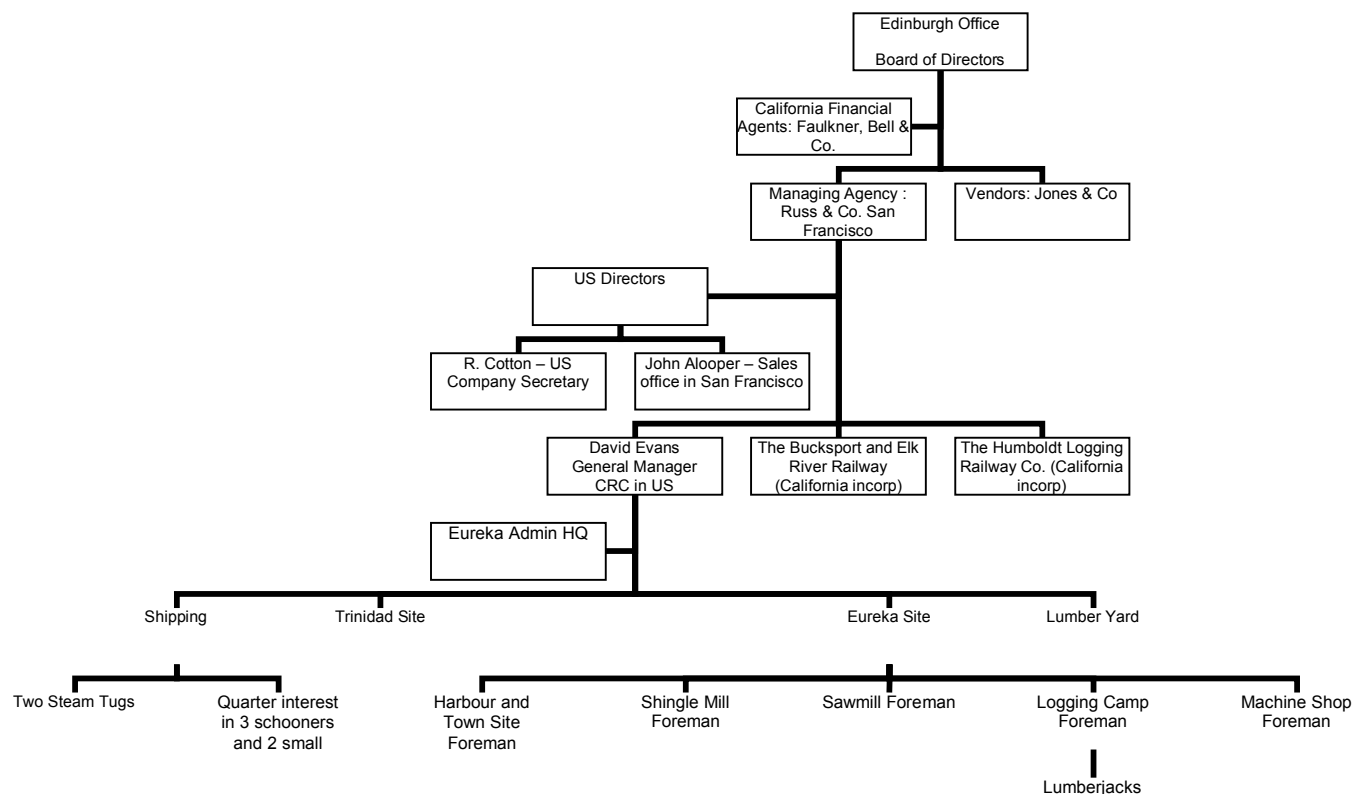
Figure 3 California Redwood Company Structure 1883-85.²⁸²⁶ Ibid.²⁷ Ibid.²⁸ This has been extrapolated from an examination of a collection of documents on this company held at NAS in GD282/13; particularly of use was the reports and correspondence file GD282/13/123 and the scrapbook GD282/13/143. NAS 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.

Figure 4 Arizona Copper Company Structure c. 1884.²⁹

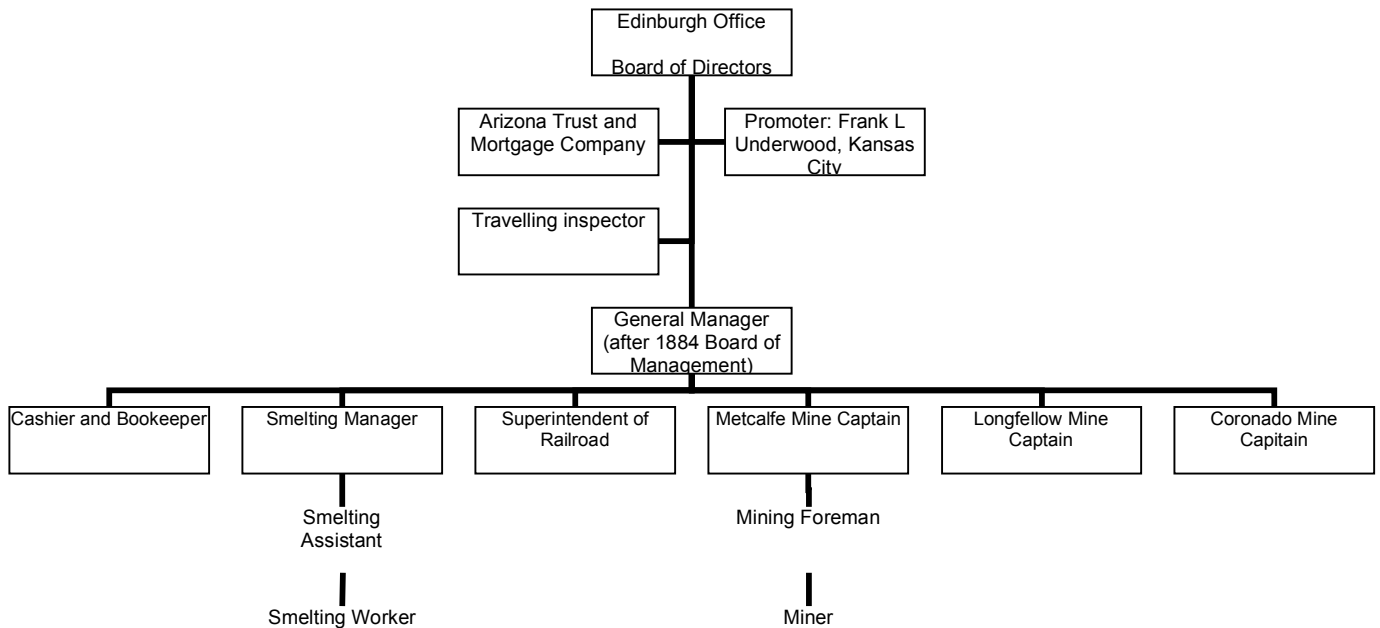


Figure 5 – Casson’s Four Types of Free Standing Company³⁰

Does the FSC Internalise:	Tech	Not Tech
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 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 control did not fully expand to

²⁹ 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.

³⁰ I have devised the diagrammatic format, but the original idea comes from M Casson, "An Economic Theory of the Free-Standing Company," in *The Free Standing Company in the World Economy*, ed. M. Wilkins and H. Schroter (Oxford: 1998).

In conclusion then the varied 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. However 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 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 Chicago³¹) but did manage to recruit some Scottish personnel to send to Arizona³²; 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. As we see in **Figure 5** above 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. 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.

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- , *The History of Foreign Investment in the United States to 1914* (Cambridge, MA, 1989).

³¹ Hyde, *Copper for America: The United States Copper Industry from Colonial Times to the 1990s*, p. 118.

³² 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.