

More than a brass nameplate on the door: foreign ownership and control in the *Companhia Real dos Caminhos de Ferro Portugueses* (1870s-1880s)¹

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Abstract

During the first global economy the free-standing company proved to be a successful organization to assemble capital, technical knowledge and project management services in more-advanced economies and mobilise them to less-developed ones. Railways were one of the business fields in which this institutional form was concentrated after mid-nineteenth century. Despite the important presence of foreign investment in the creation of the Portuguese railways, this topic has not attracted any research. *Companhia Real* did not have the formal characteristics of a free-standing company. However, the reconstruction of the decision-making processes within this firm demonstrates that the dynamics between ownership and control were identical, shaping governance and business practices similar to the free-standing companies. This paper sheds further light on the discussion about ownership, managerial control and location of strategic decisions in free-standing companies.

Keywords: Railways in Portugal; free-standing companies; international business; born-global firms; governance

1. Introduction

The creation of a modern transport infrastructure was one the most important topics raised in the Portuguese political milieu in the mid-nineteenth century. It was called the “*programa de melhoramentos materiais*” (material improvements programme), and became associated with the modernisation of transport infrastructure for improving inland circulation and promoting market integration. Railway construction was the most well-known feature of this policy (Cabral, 1976; Mata, 1988; Justino, 1989).

The deficiencies in the domestic capital market, characterised by low liquidity and institutional underdevelopment, and the lack of technical knowledge and

¹ Draft. Please do not quote. Comments and suggestions are mostly welcomed.

entrepreneurial initiative for launching the necessary investments in the railway business were common to other countries and regions in the world. The rise of foreign investment flows became a common response to the kind of problems faced by Portugal in the mid-nineteenth century to develop its infrastructure (Jones, 2005 and 2007).

As a result, foreign railway companies came into being all over the world, assembling capital, technical knowledge, and project management services in more-advanced economies to be mobilised to less-developed ones (Casson, 1998: 108-109). This large mobilisation of resources, coupled with the particular characteristics of the global economy during the second half of the nineteenth century, introduced a clear institutional specificity to the railway business in many parts of the world. The creation of free-standing companies was the most common institutional form used to mobilise these investments in railways.

A free-standing company is a firm registered in one country, having there its headquarters, but doing business in another country, without having any operations in the home country. This concept was originally proposed by Mira Wilkins (1986 and 1988) to differentiate it from the more usual and familiar one of the multinational firm, which starts with domestic operations and then moves abroad. Free-standing companies were considered a special case of the multinational enterprise “because their international business did not grow out of an ongoing business that operated at home, with the firms seeking to combine overseas operations in their existing activities” (Wilkins, 1998a). They were “born-global” firms (Knight and Cavusgil, 2004), in the sense that they did not follow the path defined by the Uppsala theory of firm internationalization (Johanson and Vahlne, 1977). However, as they usually developed their operations in only one country, free-standing companies could be counted as “international new ventures”, following Oviatt and McDougal (1994 and 2005; Boughey, 2009). The original concept contributed to further research initiatives (Wilkins and Schröter, 1998; Wilkins, 2001 and 2004) and was considered one of the few contributions business history had to the international business literature (Kipping and Üsdiken, 2007: 104).

Free-standing companies should not be seen as some sort of “second-rate kind of foreign direct investment” (Wilkins, 1998a: 41). They are institutional devices particularly adapted to the late nineteenth-century global economy: firstly, as a way to

assemble and mobilise the flows of resources needed: capital, technology, and information (Casson, 1998: 99-100); secondly, as a way to secure the property rights of the investors, through the registration of the company under the home country law (Wilkins, 1998a: 41).

The comparative advantage that the home country had in the intermediation of either capital or information explains why this type of company was created and controlled from the country of registration (Casson, 1998: 100), even with the communication and managerial problems incurred as a result of these long distance links (Hennart, 1998: 87). However, several questions were raised about this institutional form. Was it a multinational enterprise, even without the characteristics usually associated with this type of firm? Was it based on direct or portfolio investment? If foreign direct investment was the norm, why did investors rely on equity rather than bonds?² This debate called into question the relationship between ownership and control, and made it the most important issue that should be answered by further investigation. Was managerial control exercised by the owners? This is the critical question unifying several matters in this debate.

Nevertheless, managerial control is a rather elusive concept. It cannot be expressed as synonymous of shareholding as opposed to bondholding. Equity shareholders can have a strategy similar to a portfolio investment. Typifying the differences between strategic and operational control (Hennart, 1998: 89 ff), proposing a spectrum of headquarters' control (Corley, 1998: 134) or associating control with the location of competence and integrity (Casson, 1998: 103-4), are all interesting issues for further research, but did not put us on the right track, asking the relevant questions. What were the functions of the headquarters in the home economy? How were the managerial responsibilities shared between the headquarters in the home country and the business operational facilities? What was the nature of the governance and control mechanisms existing in free-standing companies? These are the basic questions that only a heuristic approach can answer.

Railways were one of the fields favoured by free-standing companies. Others were utilities, the exploitation of natural resources, and financial services (Wilkins,

² See the extended discussion on these issues in Wilkins (1998a and 1998b), Hennart (1994 and 1998), Casson (1994 and 1998), or Corley (1998).

1998: 44; Casson, 1998: 100). However, it has been recognised that further research is needed on the railway industry as a multinational activity in which the free-standing form was present (Jones, 2003: 368-370; Wilkins, 2005: 55; Boughey, 2009).

In Portugal there have been several well-known studies on nineteenth-century railway investment (Vieira, 1983; Alegria, 1990; Pinheiro, 1986 and 2008), as well as on the economic impact of railways (Justino, 1989; Confraria, 1999; Mata, 2004). However, the governance and managerial structures characterizing the foreign railway companies operating in Portugal are less studied (Pinheiro, 2008). The debate on the free-standing company, as a special case of multinational enterprise, has been missing in the Portuguese historiography, even if some references have been made to its existence (Mata, 2007: 186).

The goal of this study is to fill this gap. It is focused on the analysis of the *Companhia Real dos Caminhos de Ferro Portugueses* (hereinafter *Companhia Real*), the first successful foreign venture in the railway business in Portugal. As we shall see below, this company did not have the formal characteristics of a free-standing company. However, the same above-mentioned questions related to ownership and control, and how they shaped organizational structures, governance rules, and practices could be raised in relation to the *Companhia Real*, contributing to the knowledge on international business in the late nineteenth century.

This study progresses by reviewing the characteristics of the foreign investment in the *Companhia Real*, mostly following earlier research. This section (2) will provide the ownership patterns characterising the company and how they were expressed in its top administration. After establishing the extensive presence of foreign capital the next section (3) investigates the model of governance in use for protecting the property rights of foreign investors. This paper proceeds in section number four to establish the mechanisms of control available to major shareholders, trying to understand how the company was managed and what functions the head office performed. Finally, last section (5) integrates the evidence and conclusions raised by the analysis of *Companhia Real* in the major issues raised by the literature on the free-standing company.

2. Foreign investment in the *Companhia Real*

In order to attract foreign private investment to the railway construction, the Portuguese government granted the concession for the construction and exploitation of the railways with some advantages, such as the guarantee of the interest on the sums invested, a subsidy for each kilometre of line constructed, various kinds of fiscal exemption, as well as other incentives³. There was ultimately nothing very different from what was being put into practice in other European countries at the time (Crompton, 1998). The period between 1852 and 1859 had been particularly plagued by unsuccessful railway projects, with successive contracts being granted to foreign societies and individuals and later revoked by the government (Vieira, 1983). The *Companhia Real* was the first successful outcome. It came into being at the end of the 1850s, when the contracts for the construction and exploitation of a railway line from Lisbon to Badajoz (the Eastern Line) and from Lisbon to Oporto (the Northern Line) were granted to D. José de Salamanca, the well known Spanish financier (Vieira, 1983; Pinheiro, 1986; Pinheiro, 2008). The creation of the *Companhia Real* constituted the first materialisation of the dreams for the modernisation of the transport infrastructure.

The financing of the company came mostly from French and Spanish capital, in a “complex network of foreign investors” (Vieira, 1983, p. 173), very similar to the clusters of financiers and technicians characterising the free-standing companies during the same period (Wilkins, 1988: 265-9; 1998: 13-14; 1999: 69; Jones, 2007: 153; Winder, 2006). On the first Board of Directors only three out of the 17 members were Portuguese⁴, the remaining members being made up equally of Spanish and French citizens. Besides José de Salamanca, the foreign directors represented financial firms with interests in the company (the *Crédit Industriel et Commercial*, the *Banque de Paris et des Pays Bas*, and the banking house Edouard Blount, of Paris) and businessmen connected with the construction of railways and with the French *Compagnie Lyon-Méditerranée*⁵. Portuguese shareholders were in a clear minority: of the 70,000 shares issued, only 335 were held by Portuguese investors, and the presence of Portuguese capital in the company did not rise in the following years (Pinheiro, 1986, p. 420).

³For an insight into the combination of the models of support in the construction of the Portuguese railways, see Vieira, 1983, pp. 110 ff.; Alegria, 1990, pp. 306 ff.

⁴ These were the Duke of Saldanha (well known politician and military chief), the Baron of Paiva (the Portuguese ambassador in France, and consequently close to some of the main foreign financiers), and Fortunato Chamiço (a Portuguese banker, founder of *Banco Nacional Ultramarino* and *Banco Totta*).

⁵ See Lopes Vieira (1983, pp. 271 ff) and Magda Pinheiro (1986, vol. III, p. 80) for more detailed information on the composition of the first Board of Administration.

Table 1 provides the distribution by nationality of the shareholders represented in the *Companhia Real*'s general meetings after 1877, when the exploitation of the Northern and Eastern lines was already underway⁶. This does not represent all of the equity holders, as many of them did not attend or were not represented in the meetings. However, it provides the best possible overview on shareholders' nationality. It was only at the beginning of the 1880s that Portuguese shareholders were able to systematically maintain around one fifth of the capital represented in the general meetings of the *Companhia Real*.

Table 1: Nationality of the holders of share capital in the *Companhia Real* represented in the General Meetings (1877-1884)

Nationalities	1877	1878	1879	1880	1881	1882	1883	1884
Spanish	48.0	19.3	12.6	27.6	8.1	10.1	11.9	5.3
French	27.8	42.2	69.1	48.5	73.6	57.2	66.5	37.2
English	9.4	6.8	1.3	0.9	0.9	1.1	1.5	10.3
German	0.0	23.4	0.0	6.3	8.0	11.3	0.0	28.3
Other nationalities	0.0	3.3	0.0	0.0	0.0	0.0	0.0	0.9
Portuguese	14.8	5.0	17.1	16.7	9.4	20.3	20.1	18.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
No of shares represented	11715	30697	7963	10880	11164	8874	6730	19126

French shareholders dominated. Equity held by the Camondo family was here considered from French origin. They were Sephardic Jews, originally from Spain, who lived for a period in Venice before settling in Constantinople in the eighteenth century. In 1833 the Camondo Bank was founded there, but the business was transferred to Paris in 1872, very close to the time that the family came to be associated with the *Companhia Real*. Although completely integrated into the Parisian financial milieu, sometimes the Camondo are presented as Turkish or even Italian nationals during the period under analysis. Aside from his family bank, Abraham de Camondo was also one of the shareholders in the Portuguese *Sociedade Geral de Crédito Agrícola e Financeiro*, *Banca Commerciale Italiana*, *Banque de Paris et des Pays Bas*, and *Banco Hipotecario de España* (Pinheiro, 1986: 281; Pinheiro, 2008: 142; Seni and Tarneç, 1997).

⁶ Figures presented in Table 1 have some differences regarding figures published.

Other French shareholders were present on the Board of Directors. They were mainly financiers linked to Paris banks, who were associated with José de Salamanca at the launching of the *Companhia Real*, including Eduard Blount, British by birth, but resident in Paris and present in several directorships of other railway companies (Chairman of the *Compagnie de l'Ouest*, vice-president of the *Compagnie Paris-Lyon-Méditerranée*, director of the Southern Railway Company in the Habsburg empire, director of *Madrid-Zaragoza-Alicante*), Gustave Delahante (director at the *Banque de Paris et des Pays Bas*, *Paris Grand Central* and *Madrid-Zaragoza-Alicante*, both railway companies), Joseph de Bouillierie (director of the *Société Générale de Crédit Industrielle et Commerciale*, the main financial partner of the *Companhia Real*).

The presence of Spanish shareholders is linked to the creation of the *Companhia Real* by José de Salamanca, but in the 1870s he maintained only a residual presence, holding a mere 100 shares, as he tried to leave the railway business after the crisis of 1866 (Sánchez García, 2003). Spanish capital was represented mainly by the Gandara⁷ and Cuadra⁸ families, as well as other Spanish capitalists with a lesser number of shares. The 1880s saw, nevertheless, a decrease of the Spanish share in the capital of the company, due to the loss of the Gandara family's influence, leaving the Board of Directors in 1882⁹.

A brief reference must be made to the insignificant presence of English capital. In the 1850s, when the *Companhia Real* was founded, the English market was considered an important source of investment for railway business in Portugal. However, Table 1 reveals its decreasing importance over time. It seems to follow the trend already stressed by Augusto Fuschini for Portuguese state bonds: English investors were replaced by French and German ones, signalling the declining

⁷ General José de la Gandara was a military chief and from the Spanish royal family, following a military career in the Spanish empire, notably when, as Governor of Cuba, he had to confront the Dominican insurrection of 1863. His son, Joaquim de la Gandara, was connected with several railway enterprises, particularly *Madrid-Zaragoza-Alicante* and the *Compañía de los Ferrocarriles Andaluces* (Railway Company of Andalucía), as well as with Portuguese businesses such as the *Sociedade Geral de Crédito Agrícola e Financeiro*. He was one of the shareholders in the *Companhia Real* from the very beginning, being on the first Board of Directors (López-Morell and O'Kean, 2006).

⁸ Luis de La Cuadra, Marquês de Guadalmina, was associated with Joaquim de la Gandara in several businesses: the *Sociedade Geral de Crédito Agrícola e Financeiro* (Pinheiro, 1986, p. 281), the *Madrid-Zaragoza-Alicante*, as well as his famous agricultural enterprise – the Colônia Agrícola de San Pedro Alcántara, in Andalucía, which he bought in 1873, with Joaquim de la Gandara (Gutierrez Alvarez, 1992).

⁹ Minutes from the meetings of the Committee of Paris of 22th October 1882.

confidence investors had in the solvency of the Portuguese State (Fuschini, 1896). The same might have occurred in the foreign investment flows to railways, depending on decisive financial guarantees by the state.

Such a significant presence of foreign investment raises two types of problem. How were the property rights of foreign shareholders secured in a company whose operations took place thousands of kilometres away from the capital home countries? How were incentives and mechanisms of control designed between the holders of equity in Paris and other European cities, and the managerial structure operating in Portugal?¹⁰

The railway companies of the 1800s developed an elaborated hierarchical system of professional managers (Chandler, 1977). The reasons for this development have been sufficiently emphasised: the dimension of the workforce, the complexity of their operations, distributed by different departments and dependent upon an increased flow of information amongst them, as they were exercising their activities across extensive geographical areas; there are also the problems of safety associated with railway development and exploitation. The development of new organizational structures makes even clearer the need to establish a precise definition of the incentives and mechanisms of control concerning the shareholders in the company and the hiring of professional managers (Jensen and Smith (1985); Jensen and Meckling, 1976). We shall leave aside an exhaustive analysis of the characteristics of the organizational structure of the *Companhia Real*, already studied elsewhere (Silva and Gomes, 2003). In the context of this paper, our main interest lies in understanding the way in which the structure of the management of the company reflects the preoccupation with shareholders maintaining control over the business decisions of a company operating thousands of kilometres away from the principal shareholders. The next section will attempt to understand the model of governance chosen by the company, how it was embodied in the statutes of the firm, and above all, how it was exercised in the current business practice.

3. The governance of the firm: two-headed top-management in *Companhia Real*

¹⁰ See Jensen and Meckling (1976), Lamoreaux and Raff (1995), and Jensen (1998) for a treatment of this theme.

The governance structure of the *Companhia Real* can be determined by combining different sources of information: the Statutes approved in 1859¹¹; the outlining of bureaucratic procedures and routines in 1872, containing a functional description of all the tasks concerned with the railway operation¹²; the list of the company's personnel dating from 1882¹³, which presents all the bodies of the administration and functions of the company and which, accordingly, consolidates the information furnished by the Statutes of 1859 and by the services' functional description established in 1872.

The Statutes remained unchanged until 1885, which means that the governance structure created when the Company was founded proved to be efficient for a quarter of a century. They established that the company would have a Board of Directors of sixteen to twenty members, where half should be Portuguese or Spanish nationals. Although not as large as the boards in other railway companies¹⁴, the top layer of the *Companhia Real* follows the French model, in contrast to the English model, which had fewer members in the Board (Merger and Giuntini, 1998).

The headquarters of the company were established in Lisbon, where the Board of Directors had its official seat. The composition of the Board in 1882 still reflected the multinational origin of the capital: nine directors were located in Paris, six in Lisbon, and four in Madrid. The existence of a delegation of directors in Paris is foreseen, including those who were resident in France and England (*Estatutos...*, articles 12 and 13). However, this "delegation" had a formal role and a scope of action, which were far more important and visible than what may be deduced from the statutes. The Chairman of the Board of Directors (the Count of Camondo in 1882) was located in Paris and headed the so-called Committee of Paris, including all the French directors¹⁵. This

¹¹ *Estatutos da Companhia Real dos Caminhos de Ferro Portuguezes*. Lisboa: Typ. da Soc. Typographica Franco-Portugueza

¹² "Ordem de Serviços n.º 2", 17th August, 1872 (CP archive), in which all the services are listed and functionally defined.

¹³ "Cadre du Personnel. Compagnie Royale des Chemins de Fer Portugais" (Comboios de Portugal archives). This list of personnel gives only a partial picture of the number of workers employed by the company, since it lists only permanent employees, with a regular wage or salary.

¹⁴ See the Board of Directors of the Compañía de los Ferrocarriles del Norte de Espanha in 1879, which was composed of 40 members, or that of Madrid-Zaragoza-Alicante (MZA), with 25 directors (Vidal Olivares and Pablo Ortúñez, 2002).

¹⁵ "Cadre du Personnel..."; Minutes from the meetings of the Committee of Paris; correspondence.

designation, absent from the statutes, points to the existence of a formal collective body and corresponds to its effective integration within the organic structure of the company.

Besides the presence of the Chairman of the Board in Paris, the second sign of the Committee's importance is revealed by the number of its members, more than those who sat in Lisbon. The Committee of Paris also had an executive director, a position occupied in 1882 by Luis de la Cuadra, Marquês de Guadalmina. He was in charge of the relations between the Paris office and Lisbon, as well as of the financial operations in the French capital. Throughout the period under study, it was this member of the administration who was sent to Lisbon at particularly important times, for decisions where the use of the telegraph or the postal services to convey information and instructions was not appropriate¹⁶. Even if not very frequent, face-to-face communication was not absent, as occurred in similar British railway firms (Boughey, 2009: 495). The important role performed by this executive director in the company is recognised by his salary, the third highest in the company (15,000 French francs, 50% more than the Chairman).

The Committee of Paris also included an engineer, Sosthène Le François¹⁷, as a consultant to the technical aspects of the construction and exploitation of the railways. This technical advisor took part in the Committee of Paris meetings and at times was sent to Lisbon for the implementation of the decisions taken in Paris, as we shall see below with the strategy to create an international transport network. He also received a top salary, on a par with that of the executive director in Paris.

In addition to this consulting engineer, the Committee of Paris had an enlarged technical and administrative staff, whose number and composition provides an idea of its importance in *Companhia Real's* managerial duties. Besides providing administrative support, the eleven members of the staff in Paris have accounting expertise in three specific areas: general accounting, managing the bonds and shares, and managing the financial applications of the company. The accounting of the

¹⁶ References

¹⁷ He was also in other railway companies, such as the *Sociedade de Caminhos de Ferro Madrid-Cáceres-Portugal* (**reference).

company was carried out in Paris, based on data provided by Lisbon¹⁸. The reorganisation of the company's accounting system in 1883 provides a clear example of the leading position of the Paris office in financial and management accounting. All of the improved control system was developed in Paris, and the Lisbon office had only a passive and rather problematical attitude¹⁹. As a consequence, the Paris office did not have the tiny and virtually non-existent characteristics signalled in other cases (Wilkins, 1988; Boughey, 2009; Corley, 1998). It appears in regular correspondence with Lisbon and was fully operational, even if some of the staff might have been only part-time workers in the firm, as was surely the case of the consulting engineer.

The Board of Directors in Lisbon was supported by a smaller staff (only five employees), with duties that were merely administrative: organization of correspondence and business records, taking minutes at the meetings of the Board. Its functions are far less extensive than those carried out by the dozen employees supporting the administration in Paris, among which those of accounting and financing stood out. In terms of the statutes the Board of Directors met at least once every month. The connection between the Lisbon headquarters and the Committee of Paris was guaranteed by an executive director, who also closely monitored local railway operation. This position had the second largest stipend in the *Companhia Real*, exceeded only by the General Manager (below), thus highlighting his executive responsibilities. This position was held by Jacques Osborne de Sampaio between 1875 and 1884.

The everyday operation of the company in Portugal was under the responsibility of the General Manager. According to the statutes, he was responsible for all the departments of the *Companhia Real*: Accounting, Control and Statistics, Transport, Health, Maintenance and Works, Rolling-stock and Locomotives, Storehouses, and Movement²⁰. He was also in charge of all the company's personnel²¹, proposals for

¹⁸ Bibliographical reference to the balance of 1885. The same is stated in relation to the beginning of the activity of the *Companhia Real* (Vieira, 1983: 272).

¹⁹ The accounting service in Lisbon revealed serious difficulties in adapting to the new rules, as well as a clear dependence relative to the accounting undertaken in the Paris office (Minutes of the meeting of the Committee of Paris, 4th October 1883). Other meetings to discuss this financial reorganization had already been held in September.

²⁰ Article 28 from the Statutes and "Ordem de Serviços n.º 2", 17th August, 1872 (CP archive).

²¹ However, selection, firing and salaries had always to be approved by the Board of Directors.

tariffs, and contracts for the construction and exploitation of railways; but always dependent from the approval of the Board, where he had a seat with a consulting vote. The income accompanying this position places it at the top of the salary hierarchy in the company (25,000 French francs). It is a highly technical position, always occupied by salaried engineers (Chandler, 1977 and 1979). Until 1871 this position was held by French engineers, but subsequently the Portuguese engineer Manuel Afonso Espregueira filled the post until 1883, having an important role in the reorganization of the *Companhia Real* during the 1870s²². He was aided by engineers, who headed each department. Until 1885, all of the engineers at the head of the functional departments were French or Spanish (Silva, 2009).

The *Companhia Real* appears as a two-headed directive structure, which is not at all clear in the governance structure of the company, as far as it was established in the 1859 statutes. It is thus important to determine the real powers of the Committee of Paris, its relations to the Board of Directors in Lisbon and to the operational management of the company, symbolised by the General Manager.

4. More than a “brass nameplate on the door”: the role of the Committee of Paris

According to the statutes, the importance of foreign directors as representative of the foreign shareholders was recognised and guaranteed. The Directors in the Lisbon headquarters had no decision power on a large number of subjects, without the agreement of the Directors in Paris or Madrid. Contracts with patrimonial impact, setting tariffs, relations with the Portuguese government, the strategy for exploiting the line or the establishment of the yearly budget were some of the subjects in which any decision should be preceded by consultation with all directors (Statutes, article 26). Therefore, any document circulating above the General Manager should be written in French, so that foreign directors could be up to date with the information about the company.

However, the statutory formula does not give formal existence to the Committee of Paris. In the statutes, only the Board of Directors based in Lisbon was instituted and the other directors would participate in the top management of the firm by means of an

²² Reference paper

individual consultation and vote. However, the existence of the Committee of Paris, with all the above characteristics signalling its importance demands further investigation into its real power. The minutes of the meetings of the French directors allow us to examine the degree and the type of control exercised by the Paris Committee over the management of the company. The frequency of the meetings is on average every three weeks, with some periods when meetings were more frequent, providing a first hint of the close monitoring that the Paris top-management maintained. These directors were not holding a sinecure position in the firm, as is known in other cases (Corley, 1998).

The company strategy was defined entirely in Paris, and afterwards presented and ratified in Lisbon. The internationalisation of the company after the second half of the 1870s, is a clear example of this. In September of 1876 several meetings of the Committee of Paris decided the essential vectors of the strategy²³: the company should promote a more rapid connection between Lisbon and Madrid through the construction of the Cáceres branch-line²⁴, securing an alliance with the Spanish company Malpartida-Cáceres, in order to construct the connection between Cáceres and the Portuguese frontier. The meeting of the Board of Directors in Lisbon that ratified this internationalisation strategy was held with the presence of the executive director from the Committee of Paris, J. de la Gandara, who travelled to Lisbon and provided the information about the decisions taken in Paris²⁵. This strategy of internationalisation would be followed by an attempt to find stable sources for freight in the new line between Spain and Portugal, through the approval of a contract with the *Companhia Geral dos Fosfatos* of Cáceres, giving to the *Companhia Real* exclusive rights to transport phosphate. The use of the new line provided a faster and cheaper connection with the port of Lisbon and subsequent export to Britain. Once again, the strategy is delineated in Paris²⁶. Once again Gandara was sent, in person, to Portugal to explain the

²³ The Committee of Paris took this decision on 19th September in the same year. A clearer formulation of the strategy was made in the meeting of 13th September 1877.

²⁴ The earlier connection with Madrid was made via the Elvas-Badajoz frontier, which represents a greater distance between the two Iberian capitals.

²⁵ Minutes of the meeting of the Board of Directors in Lisbon of 28th September 1876.

²⁶ Board of Directors, 12th December 1876, which tackles this theme for the first time. The meeting of the Committee on 14th February 1877 deals with the different components of this strategy, a theme which is again discussed in more detail on 7th March 1877. This meeting records some differences of opinion between the Paris administrators and those in Lisbon in relation to the strategy, and about the negotiations with the government concerning a request for a subsidy for construction work.

strategic decisions taken in Paris and to mobilise the Board of Directors in Lisbon to accept them²⁷.

Almost all the directors in the Committee of Paris were partners in the Spanish company (*Malpartida-Cáceres*), which was to provide the construction of the branch-line between Cáceres and the Portuguese frontier, and which later would give rise to the *Companhia Madrid-Cáceres-Portugal*, following its merger with the *Companhia de Caminhos de Ferro del Tajo*²⁸. Moreover, the cross-participation between the boards of directors of the two companies led to the situation where the negotiations with the *Companhia Geral dos Fosfatos de Cáceres* for the above contract were undertaken by Joaquim de la Gandara and La Cuadra, as representatives both of the *Companhia Real* and of the *Companhia Malpartida-Cáceres*²⁹. Technical personnel also had the same inter-relationships, with the consulting engineer of the Committee of Paris serving as executive director of the Spanish company after 1879. In a similar vein, La Cuadra had been executive director of this company, before taking on the same role in the *Companhia Real*, from exactly the same date³⁰. This network of financiers and technicians, based on interlocking directorships and services provided to different firms, is known in other firms. As remarked by A. T. Boughey, through these networks of promoters, financiers, service providers, and consultants, these firms cannot be interpreted as “atomistic enterprises” (Boughey, 2009: 489).

The definition of a strategy for the expansion of the company was made solely by the Committee of Paris. This strategy was later pursued through new contracts, again discussed and decided only in Paris. These new contracts were directed toward integrating the *Companhia Real* in a network of railway connections, domestic and

27 Minutes of the meeting of the Board of Directors in Lisbon, 12th April 1877.

28 Gandara had around 39.5% of the shares, followed by Camondo with 20%, La Cuadra with 12.5%, Delahante with 10%, de la Bouillierie and Blount each with 7% and the engineer of the Paris Committee, Sosthène Le François, with 4% (Balance...). Only two members of the Committee of Paris, E. Joubert (Banque de Paris et des Pays-Bas and of the *Sociedade dos Fosfatos de Cáceres*) and the Marquis of Scépeaux, were not in the capital of the Spanish railway company. Relations with the *Companhia del Tajo* became very close after the decision of the Committee of Paris (8th October 1878) to proceed with a loan to the Spanish company, which would later be amalgamated with the *Malpartida-Cáceres* to form the *Madrid-Cáceres-Portugal*.

29 Minutes of the meeting of the Committee of Paris, 18th June 1877.

30 See the minutes of the meetings of the Paris Committee of 27th February and 8th April 1879. Le François left the position of consulting engineer at the Committee of Paris after 1883, being replaced by Ch. Neveu. But at times – as executive director of the Spanish company – he continued to participate in meetings of the Committee of Paris (cf. minutes of the meeting 1st August 1883).

foreign³¹, and of maritime connections through the port of Lisbon³². This attempt to guarantee the insertion of the *Companhia Real's* lines into an intermodal transport network was accompanied by contracts with Wagons-Lits for the introduction of this company services in the Lisbon-Madrid line after 1882³³. In the end, this strategy of internationalisation had an impact on the organizational structure of the company, with the hiring of a full-time employee only for managing international and intermodal transport. This hiring was also decided upon and carried out in Paris, with the appointment of an agent who had already provided these services on a casual basis for the *Companhia Real* and the *Madrid-Cáceres-Portugal*³⁴.

All the decisions that had financial impact were approved in Paris, whether it might be the issue of new bonds³⁵ or the negotiation of loans to companies with whom it was intended to establish business alliances³⁶, without consulting the Board of Directors in Lisbon, which was only informed *a posteriori*. Other decisions relevant to railway development and operation were equally taken in Paris, but in this case there was a prior consultation with the General Manager and the directors in Lisbon. The definition of new tariffs for the transport of phosphates from Cáceres is a clear example of this situation³⁷. But even other matters apparently less relevant and concerned strictly with the operational management in Portugal were still taken in Paris, such as the regulation of the railway timetables for connections with the Spanish company, or the fines to be applied to train drivers, when responsible for delays³⁸.

The importance of the Committee of Paris in the strategic management of the company is evident. But even some matters easily classified within the realm of operational management were decided by the headquarters in Paris, when the relation

31 Besides the conventions already signed with the Spanish MZA and *Madrid-Cáceres-Portugal*, in 1882 contracts were approved providing combined services with the *Caminhos de Ferro do Minho e Douro* and *Orense-Vigo* (minutes of the meeting of the Committee of Paris, 21st June 1882).

32 Contracts with shipping companies – E. Grosos (Havre), John Hall Junior & Cie (London), Burrell & Son (Glasgow) – signed between 1881 and 1882.

33 Minutes of the meeting of the Committee of Paris, 23rd November 1881.

34 Contracting of Mr. Ravenstein from 1881 (Committee of Paris minutes of 7th December 1881). This employee would create the international agency and customs clearance services.

35 See as example the minutes of the meeting of the Committee of Paris, 14 October 1880.

36 See the footnote above in relation to loans to the *Companhia del Tajo*, as well as the decision related to loans to the *Companhia Malpartida-Cáceres* in the minutes of the meeting of the Paris Committee of 18th January 1881.

37 Minutes of the meeting of the Committee of Paris, 2nd March 1881.

38 Minutes of the meeting of the Committee of Paris, 7th December 1883

with strategic issues was more decisive, such as the operation of the line running to the Spanish border. The Board of Directors in Lisbon had certainly a lower importance in this two-headed top-management structure, formally approving decisions taken in Paris, monitoring the operational management of the railway, guaranteeing that all the relevant information was sent to Paris, and developing the contacts with the Portuguese government and administration.

It is not by chance that changes in the ownership of the share capital were reflected in the composition of Committee of Paris. The representatives of the financial institutions that supported the *Companhia Real* since the beginning, such as *Crédit Industriel e Commercial*, the finance house of the banker Edouard Blount of Paris, and the *Banque de Paris et Pays-Bas*, remain permanently in the Committee of Paris³⁹. In the same way, entrepreneurs related to railway companies in Spain and France are found among the directors in Paris, as we have seen earlier. From the beginning of the 1880s, the Camondo family had a weighty presence on the Board of Administration, reaching the highest point of its growing importance in the shareholder capital. The Camondo family replaced the Gandara family, who held the presidency and executive administration. While this was happening, the Board of Directors in Lisbon remained almost unchanged from the beginning of the 1870s, with the position of the executive director being occupied always by Osborne Jacques Sampaio, and maintaining very nearly the same names until 1884⁴⁰. This was a further sign that the real centre of power of the two-headed Board of Directors was located in Paris.

5. Ownership and control in foreign ventures: discussion and concluding remarks

Formally, the *Companhia Real* did not possess the characteristics of the free-standing company. However, in reality even a company registered in the country hosting foreign investment and having there its headquarters could be organised in the same way as the free-standing model. This demonstrates the benefits of following a methodology more attentive to the practices than to the rules, privileging the information that may reconstruct business decision-making processes. It does not matter if the foreign company is registered at the home or host country. The statutory rules

39 These were men such as G. Delahante, J. de la Bouillierie, Ed. Blount and E. Joubert.

40 References.

regarding the location and functioning of the Board are not critical. Decisive is how was the decision-making process and the governance structure, where decisions are taken and authority exercised. And this is what can be certainly understood from this study on the *Companhia Real*.

The discussion on ownership, control and location of strategic decisions became the most important point in the debate on the free-standing company. In the first writings in which she introduced the new concept, Wilkins (1998) tended to undervalue the importance of the foreign headquarters to the management of the firm. This position was changed later, mostly in the contributions edited in Wilkins and Schröter (1998). The *Companhia Real*'s case here presented strongly militates in favour of the critical role performed by the head office..

The Committee of Paris did not perform a passive role in the managerial structure of the *Companhia Real*. It was not a “mere financial vehicle, without further control and intervention over the activities of the firm” (Hennart, 1998: 89). It was neither a mere repository of financial information to the foreign stockholders who sat in the Board of Directors to keep them informed about the railway venture. Management and financial accounting was used to provide the information needed to run the firm from Paris, whose Committee coordinated the strategy, took all the financial decisions and preserved the control of the company. The contractual details of concessions for the construction and exploitation of the railways was also the subject of decision-making by the Committee of Paris. Equally, contracts with other commercial partners (other railway and transport companies, national or international, or suppliers of equipment and services) were decided in the Committee of Paris, on most occasions on its own initiative and rarely on the initiative of the Board of Directors based in Lisbon.

It was the Board of Directors, formally located in Lisbon, which had a passive role, with the possible exception of its executive director. The General Manager only retained the operational matters regarding the day-to-day management. But even operational decisions considered critical to the overall strategy were closely monitored by the Committee of Paris and, if necessary, prompted operational decisions from Paris, as it was exemplified above. When operational issues were raised and the organizational structure in Lisbon strained, the head office in Paris redefined the organizational structure. This was what occurred when persistent delays in the schedule of the Lisbon-

Madrid train, led to the creation of a new post of salaried top manager (General Inspector of Operation), who took away from the Portuguese General Manager the technical departments of the company (Rolling Stock, Movement, Maintenance and Works, Storehouses).

Should the extended managerial functions attributed to the Paris office qualify the company as a multinational enterprise? The debate about the classification of free-standing companies as foreign direct investment and multinational enterprises has been one of the most important issues raised in the literature (Wilkins, 2001 and 2004). In the case of *Companhia Real* there was a cross-border investment of capital and managerial resources through direct control over foreign operations. This definition does not leave any doubts as to classify this investment as direct investment as opposed to portfolio investment.

However, in order to be eligible as a multinational enterprise other criteria should be taken into consideration, following Casson's (1998: 106) suggestion that a "peculiar feature of the free-standing company is that the usual connection between foreign direct investment and the multinational enterprise breaks down". If the multinational enterprise can be defined as the firm that owns and controls assets and activities in more than one country, then the basic question is to know if the Paris office's qualifies as a separate activity.

Even if developed by part-time technical, accounting or clerical staff, as well as part-time and non-executive directors, the Paris office was the real headquarters of the firm, providing the expected managerial functions. It is debatable if the fact that these top-management functions were located abroad qualifies the firm as a multinational enterprise, having operations in only one country. But the Paris office performed other functions besides the financial and managerial ones. On an on-going basis it recruited personnel, purchased equipment and services, accessed consulting services on arm's length, when in-house expertise was not available. As it is argued by Mark Casson, talking about free-standing companies, that the location of managerial control in foreign locations like Paris was based on the comparative advantages these locations had in the intermediation of capital and information, due to its easy access to "many organised markets": "These markets are supported by a large amount of face-to-face contact between merchants, and this is in turn associated with economies of agglomeration in a

metropolitan area.” (Casson, 1998: 126). This access to organised markets, sources of information, technology, expertise and services would not be possible in a country like Portugal. As a result, a firm like *Companhia Real* is based on foreign direct investment because the investors abroad exercise control over its operations and a multinational firm because the foreign headquarters performed a separate activity⁴¹.

The dual-board structure, reflecting specialisation between strategic and operational decisions, is similar to the situation described by Charles Wilson and David Boughey. In the early twentieth century, dual-board structures, similar to the one here presented, started to appear in the free-standing companies’ operations locate in South American, as a way to accommodate the representation of local interests, important to influence political and administrative decisions (Boughey, 2009). If this explanation can be transposed to what occurred in Portugal and in other countries with similar two-headed administration (Vidal Olivares, 1999; Vidal Olivares and Ortúnez, 2002; Roth e Dinhl, 2008), it looks as if political influence were more costly in European countries hosting foreign investment than in other non-European locations, explaining the early dual-board solution. Furthermore, from these suggestions it appears that the nomination of Directors who only have sinecure positions seems more predictable in the local Board than in the foreign Board.

Could the location of control evolve over time in firms like the *Companhia Real*? The evidence collected to this study cannot provide any answer about this question. However, it is possible to follow some hypothetical reasoning. In the initial period of a business venture like nineteenth-century railway enterprises, characterised by project management issues, it was more efficient to have the control located abroad, in the home country. Besides channelling capital, only the foreign headquarters was able to assemble technological expertise, to synthesise it into a project solution, the procurement of equipment, materials and services. When railway network is stabilised and operation running smoothly, the efficient use of the investment could place much more weight on local management (Casson, 1998: 104). In this particular case, even if the *Companhia Real* had been created in 1859, the 1870s and the 1880s were still a time

⁴¹ Following Casson: “Certainly their ability to convert technological expertise into project-management services can be construed as an ownership advantage (or, equivalently, a competitive advantage) in Dunning’s terms”.

of expansion and definition of the Portuguese and Iberian network, which explains the role played by the Committee of Paris.

The similarity in the governance structures and practices between the *Companhia Real* and typical free-standing companies should not reduce some differences to nothing. It has been already stated that British free-standing companies rely on smaller head offices (Boughey, 2009). Consulting engineers was a major category of specialised services, providing technical expertise on project management or supporting local railway operations. In the case of *Companhia Real*, the Committee of Paris' access to these specialised services was based on the integration of engineers in the payroll of the firm. British investment on railways through the "classical" free-standing form relied more on acquiring these services through arm's length transactions than through the internalization of these services (Boughey, 2009: 494). However, this was less dependent on the form of the enterprise than on the density and availability of these services through market relationships.

Finally, as it was stated by Wilkins, "capital was not exported in a vacuum, but rather it was embodied in a business organization" (1998b: 423). All the questions on how managerial decisions were taken, the characteristics of the governance structure, the relationships between ownership and control, the functions of the head office and its relations to operations abroad were raised in this paper on the assumption that organization matters. This is one of the most important traditions strongly argued by the historical analysis of the firm.

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