

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

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Abstract

Despite the importance of foreign investment in the creation of the Portuguese railways, the impact on governance of the imbalance between the location of operations, and the sources of capital and project management capabilities has not attracted any research. The relationship between ownership and control of long-distance business ventures has been a major topic of the literature on the development of free-standing companies during the first global economy. The Portuguese railway *Companhia Real* did not have the formal characteristics of a free-standing company. However, the reconstruction of the decision-making processes within this firm reveals that it faced similar challenges to accommodate the agency problems raised by the distance between holders of property rights and managers in the field. This paper sheds further light on the discussion about ownership, managerial control and location of strategic decisions in firms like railways, utilities or mining companies in peripheral countries.

Keywords: Railways in Portugal; international business; ownership and control; governance

1. Introduction

In 1851, a military insurrection substituted the ruling government in Portugal. It was nothing abnormal, considering the track record of the Portuguese political life since 1820. Its manifesto stated that “it was a revolution to end with all the revolutions”, promising political stability, as well as prosperity (Cabral, 1976; Sardica, 2001). The self-designated label for the new political cycle – “Regeneration” – summarized a whole programme. The conviction was that economic backwardness in Portugal did not result from a less favourable resource endowment when compared to the most advanced European countries. The lower level of market integration constituted the main reason blocking economic growth. Institutional reforms on property rights started in past liberal governments should be resumed and expanded. The novelty was the programme of transport infrastructure construction, which should improve circulation and integrate the domestic market, unleashing the potential for economic growth. The modernization

of transport infrastructure and the beginning of railway construction was the most well-known facet of this policy (Mata, 1988; Justino, 1989). This material improvements programme (“*programa de melhoramentos materiais*”) literally translated what saint-simonians were sponsoring in other contexts as a way to promote economic growth (Cowen and Shenton, 1995; Eckalbar, 1979).

A vicious circle haunted these great expectations. If the lack of transport infrastructures checked growth, the shortage of domestic financial resources limited private investment in transportation. It was believed that this vicious circle could only be broken by the combined action of foreign borrowing and public financial support. Through foreign investment, it would be possible to overcome the deficiencies in the domestic capital market, characterised by low liquidity and institutional underdevelopment. However, the economic backwardness of the country implied that entrepreneurs would not find attractive any investment in transport infrastructures unless state subsidies would provide some sort of guarantee. Resorting to state subsidies to attract foreign investment would eventually break the vicious circle, aligning private returns with social returns and justifying public incentives (Eichengreen, 1994).

Similar programmes were common to other countries and regions across the world¹. 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 transport infrastructure (Jones, 1996 and 2007). As a result, foreign railway companies came into being all over the world, assembling capital, technical knowledge, and other services in more-advanced economies to be mobilised to less-developed ones. 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 sources of capital, technical and managerial knowledge were located many miles away from the places where actual construction and operation were taking place, potentially introducing agency problems in the relationships between the holders of property rights and the managers responsible for construction and operation (Jensen and Meckling, 1976; Jensen, 1998).

¹ See Artola (1977) and Muñoz et al. (1999) for the policy developed in Spain at the same time. For a global perspective see Debande (1997) and Roth and Dinhl (2008).

In Portugal there have been several studies on patterns of investment in railways during the nineteenth century (Vieira, 1983; Alegria, 1990; Pinheiro, 1986 and 2008), as well as on their impact on economic growth (Justino, 1989; Confraria, 1999; Mata and Tavares, 2004; Silveira, 2011). However, a thorough analysis of the governance and managerial structures characterizing the role of foreign investment in the railway companies operating in Portugal is absent from the literature. In addition, there is an argument running *sotto voce* in the studies dedicated to the reconstruction of the financial links between foreign investors and the Portuguese railway companies. It states that foreign capital was mostly a portfolio investment, without the involvement of foreign shareholders on the actual management of the firms (Vieira, 1983 and Pinheiro, 1986). 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 *CRCFP*), the first successful foreign venture in the railway business in Portugal, and the only firm able to build a network of railway lines during the second half of the nineteenth century. The long distance links between the sources of capital and knowledge, and the location of the operations was common to railway companies in other contexts. Was foreign investment based on direct or portfolio ties? Was managerial control also exercised by foreign capital providers or only by independent managers in the field of operations? These questions address the relationship between ownership and control in a situation when communication and managerial problems arise as a result of the long distance links aforementioned. This relationship can be translated in further questions with a sharper heuristic dimension: What were the functions of the foreign investors, besides capital provision? How were the managerial responsibilities shared (or not) between the capital home and the railway operational facilities? What was the nature of the governance and control mechanisms existing in the railway company?

The literature on nineteenth-century international business during the last 25 years started to dedicate some attention to the institutional solutions found to deal with the agency problems outlined above. The concept of free-standing company developed from these attempts. The 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). 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 could be considered as “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). As they usually developed their operations in only one country, free-standing companies should be counted as “international new ventures”, following Oviatt and McDougal (1994 and 2005; Boughey, 2009). Besides utilities, the exploitation of natural resources and financial services (Wilkins, 1998a: 44; Casson, 1998: 100), railways were one of the fields favoured by free-standing companies. 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).

As we shall see below, the *CRCFP* did not have the formal characteristics of a free-standing company. Its headquarters were in Lisbon, even if the largest proportion of the capital came from abroad, either on equity or debt. However, the above-mentioned questions on how the relations between ownership and control shaped the railway company’s organizational structures, governance rules and practices are part of the research agenda on free-standing firms and international business before World War I.

The period of time focused in this paper is the transition between the period of construction and full operation of the railway network, during the 1870s and 1880s. It was characterized by several changes in the nucleus of major shareholders and by conflicts on the management of the company, involving foreign and domestic shareholders or managers. Company sources on governance issues and authority relations are particularly opaque. They cultivate formal and normative approaches, hiding the actual way in which authority and control is exercised. The company by-laws and internal regulations will be used to reconstruct control and governance relations. However, more importance will be given to moments of conflict in order to disclose the

real mechanisms of control and authority within the firm. This approach has some similarities to the heuristic concept of “social drama”, as it was proposed by Victor Turner (1974) and used to elucidate actual social practices beneath the surface of formal and social regularities.

This paper progresses by reviewing the characteristics of the foreign investment in the *CRCFP*, mostly following earlier research. Following a brief summary on the importance of free-standing companies in Portugal (section 2), section 3 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 section 4 investigates the model of governance in use for protecting the property rights of foreign investors. This paper proceeds in section 5 and 6 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, the last section integrates the evidence and conclusions coming from the analysis of *CRCFP* in the major issues raised by the literature on international business during the nineteenth century.

2. Free-standing companies in Portugal during the second half of the nineteenth century

In order to attract foreign investment to the railway construction, the Portuguese government granted the concession for the construction and exploitation of the railways together 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 incentives². 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 contracts being granted to foreign societies and individuals and later revoked by the government (Vieira, 1983). In two of these cases British free-standing companies had the leading role.

It is impossible to safely establish how many free-standing companies had operated in Portugal during the second half of the nineteenth century, even if its

² For 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.

existence has been previously acknowledged (Mata, 2007). From all the foreign companies registered in Portugal between 1867 and 1900³, 42% can be defined as free-standing companies, after tracing its origin, activities and place of registration through their statutes and other available information. They clustered around activities like mining, utilities and manufacturing. At the end of the century colonial exploitation also attracted free-standing companies. None of the foreign insurance companies and banks can be considered a free-standing company, though they concentrated 50% of all the foreign firms created between 1867 and 1900.

Table 1: Free standing companies in Portugal (1867-1900), by sector of activity³

Sector	Number
Mining	10
Utilities	8
Manufacturing	7
Colonial exploration	4
Railways	1
Urban transport	1
Total	31

British firms ruled, with 2/3 of the free-standing companies (table 2). The others were French and Belgium enterprises, demonstrating the rather restricted number of countries using this institutional device for investing in Portugal. The nominal capital of these free-standing companies was not very large compared with other contemporary examples. For instance, looking at the largest Scottish free-standing companies between 1862 and 1886 (Tennent, 2008: 3), only one of the companies summarized above would occupy this ranking – the Guadiana Company, registered in 1875 to develop mine exploration in Southern Portugal.

Table 2: Free standing companies in Portugal (1868-1900), by country³

	Number
Belgium	4
France	5
Great Britain	22
Total	31

³ Source: *Anuário Estatístico*, 1875, 1892 and 1900.

Railways were present, but in a rather small number. Only The Minho District Railway Company Ltd (1874) was registered as a free-standing company during this period of time⁴. It was a small junction railway line, which on early 1879 went bankrupt after disputes with the construction contractor (Vieira, 1983; 242 ff.). Other railway companies had been created as free-standing companies before 1867. The Central Peninsular Railway Company (1852) and the South Eastern of Portugal Railway Company (1860), both incorporated in London, were short-lived projects too. The first one only laid down some 50 kilometers of track. Plagued by difficulties in issuing equity in the London Stock Exchange and problems with the construction contractor, the company was liquidated in 1857 and its works were taken over by the Portuguese state (Fino, 1883, 25-37 and 62-3; Vieira, 1983, 181 ff.). The South Eastern Company started to operate about 200 kilometers of track. In the aftermath of the 1866 financial crisis the Portuguese state took over the company, after a fierce dispute between the shareholders and the government on the financial compensations the latter would pay (Vieira, 1983, 204 ff).

The importance of free-standing companies to railway business is insignificant. The Minho Railway Company, the Central Peninsular and the South Eastern went bankrupt in a short period of time, being very far-away from completing the lines that had received in concession. Railway companies assuming the free-standing form seems to conform to one of the characteristics sometimes attributed to this institutional device for channelling foreign investment – short-lived, speculative investments by entrepreneurs who only wanted to secure the concession of a business venture, rapidly selling it to another company pocketing some profit or going bankrupt after pocketing some profits from state subventions or financial and other services. Hardy Hislop, an Englishman living in Portugal, exemplifies this kind of speculator, acting as a broker between the Portuguese political milieu and the English financiers. He was behind the creation of the Central Peninsular and the South Eastern, as well as two gas companies, the Oporto Gas Company and the *Companhia Lisbonense de Iluminação a Gás* (Vieira, 1983: 182, 206-7; Matos and Silva, 2008).

⁴ The Lisbon Steam Tramways Company was also registered in 1871, but it was an urban transport company. It is a clear example of fraud in nineteenth-century Portugal, involving British investors and Portuguese politicians (Duke of Saldanha) (Vieira, 1983: 226 ff e 1980, 90 ff).

The successful railway ventures resorting to foreign capital did not assume the form of free-standing companies. Nevertheless, they face the same agency problems aforementioned and the rest of the paper will use the case of CRCFP to elucidate this issue.

3. Foreign investment in the CRCFP

The CRCFP constituted the first materialisation of the dreams for the modernisation of the transport infrastructure. 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 (Fino, 1883; Vieira, 1983; Pinheiro, 1986; Pinheiro, 2008; Salgueiro, 2008). In 1890 it operated more than 900 kilometres of track, by far the largest railway network in Portugal, but very distant from the ranking of the 30 largest European railway companies at the time, whose bottom started at over 2,000 kilometres (Carreras, 1999: 39).

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 similar ventures during the same period⁵. On the first Board of Directors only three out of the 17 members were Portuguese⁶, 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 (as the recently founded *Société Générale de Crédit Industriel et Commercial* and the banking house Edward Blount, of Paris) and businessmen connected with the construction of railways, particularly active in the French *Compagnie Lyon-Méditerranée* and the Spanish *Madrid-Zaragoza-Alicante*⁷. Portuguese shareholders were in a clear minority when the company was launched: of

⁵ See Wilkins, 1988: 265-9; 1998: 13-14; Jones, 2007: 153; Winder, 2006. The Spanish railway lines had the same characteristics, mobilizing foreign capital (mostly French), as well as the usual network of foreign managers and engineers (Vidal Olivares, 1996; Comín *et al.*, 1998).

⁶ 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).

⁷ 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.

the 70,000 shares issued, only 335 were held by Portuguese investors (Pinheiro, 1986, p. 420).

Table 3: Nationality of the *CRCFP*'s shareholders registered in the General Meetings (1876-1884)

Nationality	1876	1877	1878	1879	1880	1881	1882	1883	1884
English	1.0	0.9	0.3	1.3	0.9	0.9	1.1	1.5	0.5
French	73.7	27.0	63.7	67.8	47.6	72.7	56.1	63.6	61.3
Portuguese	15.7	17.3	6.0	23.4	21.3	13.9	25.9	27.5	20.6
Spanish	9.6	54.8	21.9	7.5	23.9	4.5	5.6	7.4	2.7
Other	0.0	0.0	8.1	0.0	0.0	0.0	0.0	0.0	13.5
Unknown	0.0	0.0	0.0	0.0	6.3	8.0	11.3	0.0	1.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Number of shares represented	10435	11715	30697	7963	10880	11164	8874	6730	19126

Source: Minutes from the shareholders meetings (1876-1884)⁸

Table 3 provides the distribution by nationality of the shareholders represented in the *CRCFP*'s general meetings after 1876, when the exploitation of the Northern and Eastern lines was already underway. 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 presents the best possible overview on the capital structure of the company.

French shareholders dominated. They were mainly financiers linked to Paris banks, who were associated with José de Salamanca at the launching of the *CRCFP*, including Edward Blount, a Scotsman but resident in Paris and present in several directorships of other railway companies⁹, Gustave Delahante¹⁰ and Joseph de Bouillierie¹¹. After the 1870s the core of major shareholders evolved, with the arrival of the *Société Générale*, founded in 1864 and chaired by Edward Blount after 1875 (Bonin, 2006), and the *Banque de Paris et des Pays Bas* (Paribas), sometimes flanked

⁸ These figures are different from other attempts to assemble similar information (Silva and Gomes, 2003; Pinheiro, 2008; Salgueiro, 2008), but they provide the best available information on the company's capital structure.

⁹ 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* (MZA), respectively the first, the sixth, the twentieth and the twenty-fourth on the ranking of the largest European railway companies.

¹⁰ Director at the *Banque de Paris et des Pays Bas*, *Paris Grand Central* and *Madrid-Zaragoza-Alicante*, both railway companies.

¹¹ Director of the *Société Générale du Crédit Industrielle et Commerciale*, the main financial partner of the *CRCFP*.

by other Parisian or Belgium banking houses (A. J. Stern, Maurice Kann, Henri Bamberger, Baron de Hirsch or Brugmann). The Paribas had been recently founded and was particularly active in railways investments across Europe (Cameron, 1961: 197-8).

Another strand of French investors was represented by the Camondo family, who came to *CRCFP* in the early 1870s and rapidly became the most important individual shareholder, gathering around 50% of the equity in several meetings. 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 *CRCFP*. 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 main shareholders in *Banca Commerciale Italiana*, *Paribas*, *Banco Hipotecario de España*, the Portuguese *Sociedade Geral de Crédito Agrícola e Financeiro* (Pinheiro, 1986: 281; Pinheiro, 2008: 142; Seni and Tarnec, 1997) and *Andaluces*, the Spanish railway company (Cuéllar Villar, 2007: 28; Comín, 1998: 192).

The presence of Spanish shareholders is linked to the creation of the *CRCFP* by José de Salamanca. 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 Gandara¹² and La Cuadra¹³ 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, who privileged their railway business in Spain, leaving the Board of Directors in 1882¹⁴.

¹² General José de la Gandara followed 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 MZA and the *Compañía de los Ferrocarriles Andaluces* (Railway Company of Andalusia), as well as with Portuguese businesses such as the *Sociedade Geral de Crédito Agrícola e Financeiro* (López-Morell and O'Kean, 2006). He was one of the shareholders in the *CRCFP* from the very beginning, being on the first Board of Directors.

¹³ 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 MZA, as well as his famous agricultural enterprise – the Colônia Agrícola de San Pedro Alcántara, in Andalusia, which he bought in 1873, with Joaquim de la Gandara (Gutierrez Alvarez, 1992).

¹⁴ Minutes from the meetings of the Committee of Paris of 22th October 1882.

Portuguese shareholders were always a minority. However, after the late 1870s their participation was increasing and the Portuguese shareholders were able to systematically maintain more than one fifth of the capital represented in the general meetings of the *CRCFP*. This anticipated the changes in the power relations within the company that will be addressed later in this paper (section 6).

A brief reference must be made to the insignificant presence of English capital. In the 1850s, when the *CRCFP* was founded, the English market was considered an important source of investment for railway business in Portugal. However, Table 3 reveals its irrelevance at this 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 confidence in the solvency of the Portuguese State (Fuschini, 1896; Esteves, 2005: 318-9). The same might have occurred in the foreign investment flows to railways, which depended on decisive financial guarantees by the state.

Such a major presence of foreign investment raises two types of problem. How the property rights of foreign investors were 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 the managerial structure operating in Portugal?

The railway companies developed an elaborated hierarchical system of professional managers (Chandler, 1977; Vidal Olivares, 1999). The reasons for this development have been sufficiently emphasised: the dimension of the workforce, the complexity of railway operation, 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 complex 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.

The characteristics of the organizational structure of the *CRCFP* were already studied by Silva and Gomes (2003). After establishing the critical importance of foreign investors in the capital structure of this railway company, the next step 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.

4. The governance of the firm: the two-headed Board

The governance structure of the *CRCFP* can be established by combining different sources of information: the Statutes approved in 1859¹⁵ and the outlining of bureaucratic procedures (1872), containing a functional description of every managerial position¹⁶. The list of the company's personnel (1882)¹⁷ presents all the bodies of the administration and services of the company, consolidating 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 adequate 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 companies¹⁸, the top layer of the *CRCFP* 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 in the statutes, including those who were resident in France and England and representing the importance played by foreign investment in the creation of the *CRCFP* (*Estatutos...*, articles 12 and 13). As it will be discussed later, this "delegation" had an actual role and scope, which were far more influential than what may be deduced from the statutes'

¹⁵ *Estatutos da Companhia Real dos Caminhos de Ferro Portuguezes*. Lisboa: Typ. da Soc. Typographica Franco-Portugueza.

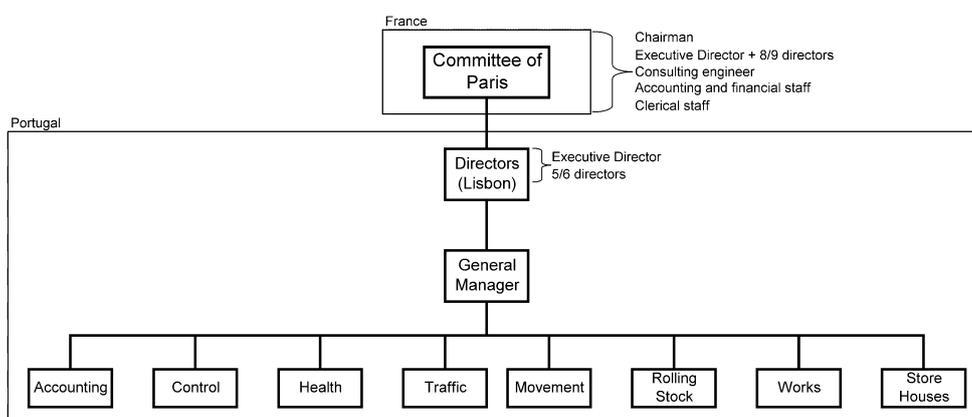
¹⁶ "Ordem de Serviços n.º 2", 17th August, 1872 (CP archives).

¹⁷ "Cadre du Personnel. Compagnie Royale des Chemins de Fer Portugais" (CP archives).

¹⁸ See the Board of Directors of the Compañía de los Ferrocarriles del Norte de España in 1879, which was composed of 40 members, or that of Madrid-Zaragoza-Alicante (MZA), with 25 directors (Vidal Olivares and Pablo Ortuñez, 2002).

normative account. 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”¹⁹. This 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 (see Figure 1, with the company’s organizational chart from 1870 to 1883).

Figure 1: CRCFP's organizational chart, 1870-1883



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 included the executive director, a position occupied in 1882 by Luis de la Cuadra, Marquis of Guadalmina, and earlier by his business associate, Joaquin de la Gandara. 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 appropriate²⁰. Therefore, even if face-to-face communication was not very frequent, it

¹⁹ “Cadre du Personnel...”; Minutes from the meetings of the Committee of Paris; correspondence.

²⁰ See for instance the minutes from the meetings of the Board of Directors in Lisbon, 12 April 1876, 18 January 1881, 6 November 1883, 14 June 1884.

was not absent, contrarily to what happened in similar organizational contexts (Boughey, 2009: 495). The important role performed by this executive director 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 François²¹, 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 integrate the *CRCFP* into 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 gives an idea of its importance in *CRCFP*'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 the financial applications of the company. The accounting of the company was carried out in Paris, based on data provided by Lisbon²². 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 attitude²³.

The Paris office did not have the tiny and virtually non-existent characteristics signalled in other cases (Boughey, 2009; Corley, 1998; Wilkins, 1988). 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.

²¹ He was also in other railway companies, such as the *Sociedade de Caminhos de Ferro Madrid-Cáceres-Portugal* and the *Andaluces*.

²² This situation happened since the beginning of the firm, as it is evident from a memorandum written to the government by the Board in Lisbon: "the information required is not always available because the accounts are made in Paris by the bankers of the company, the *Société Générale de Crédit Industriel et Commerciale*" (Dinis, 1905: 271).

²³ 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.

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 were 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 a second executive director, who also closely monitored local railway operation. This position had the second largest stipend in the *CRCFP*, 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. He had a previous career in the top management of railway companies: firstly as executive director in the *Compagnie du chemin de fer du Grand Central* and later in the Spanish MZA (López-Morell, 2005: 164).

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 *CRCFP*: Accounting, Control and Statistics, Transport, Health, Maintenance and Works, Rolling-stock and Locomotives, Storehouses, and Movement²⁴. He was also in charge of all the company's personnel²⁵, proposals for 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, firstly Goudchaux (1865-1870) and Sosthène Le François, after 1870. An incident between Le François and the Portuguese government deputy to the Board (Salgueiro, 2008: 49-50) led to his substitution by a Portuguese engineer in late 1871. Manuel Afonso Espregueira, Portuguese engineer graduated in the *École des Ponts et Chaussées*, filled the post until 1883, having an important role in the reorganization of the *CRCFP* during the 1870s (Silva and Gomes, 2003; Silva, 2009).

²⁴ Article 28 from the Statutes and “Ordem de Serviços n.º 2”, 17th August, 1872 (CP archive).

²⁵ However, selection, firing and salaries had always to be approved by the Board of Directors.

From the last paragraphs it is evident that the *CRCFP* shows a two-headed directorship, a dual-board structure, which is not at all clear in the formal governance 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.

5. 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 railway lines 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.

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 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 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. The directors seating in Paris 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 move²⁶: the company should promote a more rapid connection between Lisbon and Madrid through the construction of the Cáceres branch-line²⁷, 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, de la Gandara, who travelled to Lisbon and provided the information about the decisions taken in Paris²⁸. 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 *CRCFP* exclusive rights to transport phosphate. The use of the new line provided a faster and cheaper connection to the overseas markets through the port of Lisbon. Once again, the strategy was delineated in Paris²⁹. Once again Gandara was sent, in person, to Portugal to explain the decisions taken in Paris and to mobilise the Board of Directors in Lisbon to accept them³⁰.

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*³¹. Moreover, the cross-participation between the boards of

²⁶ 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.

²⁷ The earlier connection with Madrid was made via the Elvas-Badajoz frontier, which represents a greater distance between the two Iberian capitals.

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

²⁹ 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.

³⁰ Minutes of the meeting of the Board of Directors in Lisbon, 12th April 1877.

³¹ 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 (but he was in the Board of the *Sociedade dos Fosfatos de Cáceres*), as well as in the *Banque de Paris et des Pays-Bas*) 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

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 *CRCFP* and of the *Companhia Malpartida-Cáceres*³². 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 *CRCFP*, from exactly the same date³³. 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. The strategy was later pursued through new contracts, again discussed and decided only in Paris. These new contracts were directed toward integrating the *CRCFP* in a network of railway connections, domestic and foreign³⁴, and of maritime connections through the port of Lisbon³⁵. The attempt to guarantee the insertion of the *CRCFP*'s railway 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 1882³⁶. 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

with the *Malpartida-Cáceres* to form the *Madrid-Cáceres-Portugal*. See Comín et al. (1998: 171 ff), Cendal (1999) and Wais (1974: 375ff) on the evolution of the Spanish railway company.

³² Minutes of the meeting of the Committee of Paris, 18th June 1877.

³³ 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 (see minutes of the meeting 1st August 1883).

³⁴ 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).

³⁵ Contracts with shipping companies – E. Grosos (Havre), John Hall Junior & Cie (London), Burrell & Son (Glasgow) – signed between 1881 and 1882.

³⁶ Minutes of the meeting of the Committee of Paris, 23rd November 1881.

appointment of an agent who had already provided these services on a casual basis for the *CRCFP* and the *Madrid-Cáceres-Portugal*³⁷.

All the decisions that had financial impact were approved in Paris, whether it might be the issue of new bonds³⁸ or the negotiation of loans to companies with whom it was intended to establish business alliances³⁹, 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 situation⁴⁰. 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 delays⁴¹.

The importance of the Committee of Paris in the strategic management of the company is evident. Some matters easily classified within the realm of operational management were decided by the headquarters in Paris, when the relation 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 *CRCFP* since the beginning, such as *Crédit Industriel e Commercial*, the finance house of the banker Edward Blount of Paris (later heading the

³⁷ Contracting of Mr. Ravenstein, who created the international agency and customs clearance services (Committee of Paris minutes of 7th December 1881).

³⁸ See as an example the minutes of the meeting of the Committee of Paris, 14 October 1880.

³⁹ 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, 18th January 1881.

⁴⁰ Minutes of the meeting of the Committee of Paris, 2nd March 1881.

⁴¹ Minutes of the meeting of the Committee of Paris, 7th December 1883

Société Générale), and the *Banque de Paris et Pays-Bas* remained permanently in the Committee of Paris⁴². 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 had held the presidency and executive administration. While this was happening, the Board of Directors in Lisbon remained almost unchanged since the beginning of the 1870s, with the position of the executive director being occupied always by Jacques Osborne de Sampaio, and maintaining very nearly the same names until 1884⁴³. This was a further sign that the real centre of power of the two-headed Board of Directors was located in Paris.

Similar dual-board structures existed in other railway companies, as well as in other industries (Matos and Silva, 2008). They were ubiquitous in the three largest Iberian railway ventures, where French capital was well represented (Comín et al., 1998; Cuéllar Villar, 2007; López-Morell, 2005; López-Morell and O’Kean, 2008; Muñoz Rubio et al., 1999; Vidal Olivares and Ortúñez, 2002), as well as in other countries (Roth and Dinhl, 2008). From these accounts what emerges is a clear emphasis on the operational and managerial tasks assumed by local boards. It is argued that foreign committees usually had the last word on the most important issues, usually in financial matters (Comín et al., 1998: 179; Lopez-Morell, 2008: 177), but control issues are not studied in detail. In short, more attention is paid to formal governance rules than to actual managerial behaviours.

6. Crisis and order: unveiling control and authority relations within the firm

Periods of crisis and disruption are privileged times to look behind the formal and normative rules (Turner, 1974) in order to discover the actual control practices within organizations. In the mid-1880s the *CRCFP* went through a period of serious conflict, which lasted several years. The events can be presented in an abridged way⁴⁴.

⁴² These were men such as G. Delahante, J. de la Bouillierie, Ed. Blount and E. Joubert.

⁴³ Information collected from the minutes of the shareholders meetings where the Board was elected.

⁴⁴ See also Pinheiro (1986) and Salgueiro (2008) for an account of these events.

In 1884 the railway company negotiated with the Portuguese government the concession of a new line (*Beira Baixa* railway line). When the contract was already drafted and presented to the Parliament, a MP proposed an additional clause demanding that a majority of Portuguese citizens should seat in the *CRCFP*'s Board of Directors. The Parliament approved this proposal. The reaction of the company was against the change in its governance rules, an opposition joining together not only the Committee of Paris, but also the directors seating in Lisbon⁴⁵. Carlos Zeferino Pinto Coelho, a new director in the Lisbon's Board, influential businessman, also president of the water company and director at the Bank of Portugal, voiced in very sound terms the disagreement.

What was in motion was a battle for power within the company, clearly emerging in the extraordinary general meeting convened to decide on the position of *CRCFP* regarding the new law. In an unprecedented procedural decision, only the proxies of absent shareholders recognized by the Portuguese embassy in Paris were accepted as valid votes. This manoeuvre put out much of the foreign shareholders' representation. The Portuguese shareholders got the majority of the votes, approved the change of the company by-laws and elected a new Board, where Portuguese directors had the majority (12 against 10 foreign directors) and without the previous president, Camondo, substituted by Henrique Eugénio Macieira, a director of the *Banco Lusitano*. Almost all the foreign directors refused the appointment, including several of the previous directors that dominated the company since the 1870s (Gandara, Bouillierie, Bodet, for instance)⁴⁶.

In 1885, there was an attempt to reconcile the two groups, trying to maintain the guarantees to the foreign shareholders in a revision of the company's by-laws. The rule of having a majority of national directors was not changed, but the number of seats in the Board was increased to 30 (very close to the Spanish examples referred above). The Committee of Paris was recognized as such in the new by-laws and it should be consulted for a number of important matters. However, the balance of power within the Board did not revert to the previous situation, when the number of directors seating in Paris was larger. The next years would reveal that appeasement was out of the question, as the foreign directors were systematically forgotten in decisions affecting the

⁴⁵ Minutes..., 10th September 1884.

⁴⁶ *Ibidem*.

management of the company. The centre of decision moved definitively to Lisbon after 1884.

These events can only be understood in the light of an accumulation of tensions within the organization's two-headed Board, revealing the relations of power and control before 1884. As previously stated, expansion into Spain and insertion into a network of intermodal connections characterized the strategy of *CRCFP*. In early 1877, the company's General Manager, Manuel Afonso Espregueira, expressed his reservations about certain aspects of this expansion in a letter to the Committee of Paris⁴⁷. But it was the subordination of the domestic operational management within the intermodal relations favored by the Committee of Paris, which triggered the crisis. The 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) at the end of 1883, occupied by a French engineer, nominated by Paris⁴⁸. This would create two top managerial positions in Portugal (see figure 2): the former General Manager (Manuel Alfonso Espregueira) would oversee the General Services, centralized in Lisbon; the new General Inspector of Operation would direct the Technical and Operational Services (Rolling Stock, Movement, Maintenance and Works, Storehouses), crucial for the coordination of multimodal operation (Silva and Gomes, 2003). It constituted the final straw in the increasingly tense relations between the Committee of Paris and the operational management in Portugal. In June 1884, in a three days' sequence, the General Manager, the deputy engineer responsible for construction (Pedro Inácio Lopes) and two members of the Board in Lisbon (Francisco de Oliveira Chamiço and Fortunato Chamiço Junior) presented their resignation.

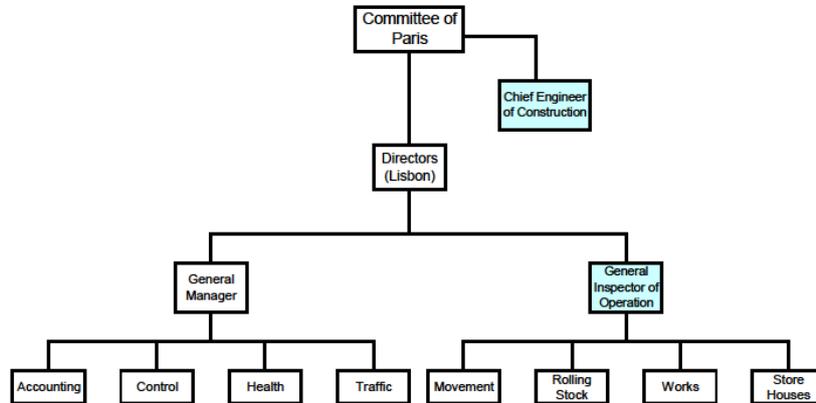
Behind the strategy of expansion into Spain lay motivations related to the interests of the company's main shareholders, French and Spanish, with interests in Spanish railway. The interlocking of directorates between the Committee of Paris, the Spanish company *Madrid-Cáceres-Portugal* and the *Companhia de Fosfatos de Cáceres* is evident, involving the French and Spanish administrators of *CRCFP* (Camondo, Joubert, Bodet, Le François, Moret y Prendergast, Gandara...). The expansion into Spain offered a new and shorter international connection to Madrid and allowed an appreciation of assets with limited worth when taken separately. The

⁴⁷ Letter referred at the meeting of the Committee of Paris (Minutes..., 7th March 1877).

⁴⁸ Minutes of the meeting of the Board, Lisbon, 10th November 1883.

creation of intermodal agreements and connections for freight and passengers was part of this objective too.

Figure 2: CRCFP's organizational chart, 1883-1884



Other motivations were present in the expansion into Spain. The incentives for investment in railways did not lie primarily in the traffic profits, but in the earnings obtained in the construction phase (Keefer, 1996)⁴⁹. The concession contracts with private railway companies were based on a state subsidy per kilometre, difficult to monitor and determine by public authorities⁵⁰. There were also other revenues coming from project management activities during this period, when it was necessary to channel financial resources, specialised human resources, goods and equipment into the field (Eichengreen, 1994: 28). The presence of financiers and engineers with experience in railway construction was an essential requirement, since cost evaluation and project design was critical in these site-specific projects with a highly idiosyncratic component. The construction phase could lead to important opportunities for extra profits derived from project management or it could be an open door for fiasco, if costs were poorly calculated and the contract with the government poorly designed. The banks involved in the placement of debt or equity had other means to channel revenues to reference shareholders. Gaining access to the commissions charged for financial services was an additional motivation for the involvement of banking institutions in railway

⁴⁹ See Tedde de Lorca (1978: 118 ff) and Tortella (1982: 78) where the same argument is stated for Spanish railway ventures.

⁵⁰ This opinion was expressed in 1892 by Frederico Pimentel (1892: 43), when reviewing the guidelines followed by the Portuguese state for promoting railway construction.

investment⁵¹. Along with the discontent regarding the strategy of expansion into Spain and the decreasing of autonomous top management by the Portuguese engineers, the *Companhia Real* became a tempting target for those interests wanting to capture the revenues of financial services and project management. The stabilization of railway operations after the late 70s generated a high volume of cash flow, fuelling further ambitions to control them by Portuguese financial institutions, particularly those aiming at a rapid and leveraged growth. A more strictly political dimension could be added – a “nationalised” and more compliant company could offer additional comfort to any government, through short-term loans to meet recurrent financial difficulties⁵². The decision of the Board in Lisbon to lend 10 million francs to the Portuguese government in 1887 was the most flagrant example of this use of the company funds⁵³. It triggered the final rupture between the Board of Directors in Lisbon and the Committee of Paris, who resigned in July 1887⁵⁴.

The identification of the protagonists supports this interpretation. The mobilization of Portuguese shareholders and the preparation of the scheme that prevented the acceptance of the foreign shareholders’ proxies was carried out by businessmen from the *Banco Lusitano* and the *Sociedade Geral de Crédito Agrícola e Financeiro*, minor institutions in the Portuguese banking system, but with rapid growth in recent years and close ties to the Progressive Party. The MP who presented the additional clause to the concession contract, imposing Portuguese majority in the Board of Directors was Mariano de Carvalho, one of leading figures within the Progressive Party and future Minister of Finance (Fernandes, 2010). He will enter into the company’s Board in 1884, together with representatives of the Portuguese banks just mentioned. The external connections are made by two French engineers, with experience in public works, namely the Suez Canal and railways: Charles Cottard and Edmond Bartissol (Barjot, 1994; Escudier, 1995). The latter was actively involved in several public works in Portugal (port of Leixões, *Beira Alta* railway line) and had links to the *Société Financière* in Paris (Pinheiro, 1986: 480). The objective was to dislodge

⁵¹ See the conclusions of the report presented to the Board of Directors, when the Paris office was seized by the new administration, after the resignation of the French directors following the decisions of the September 1884 meeting (Minutes..., Lisbon, 27th November 1884).

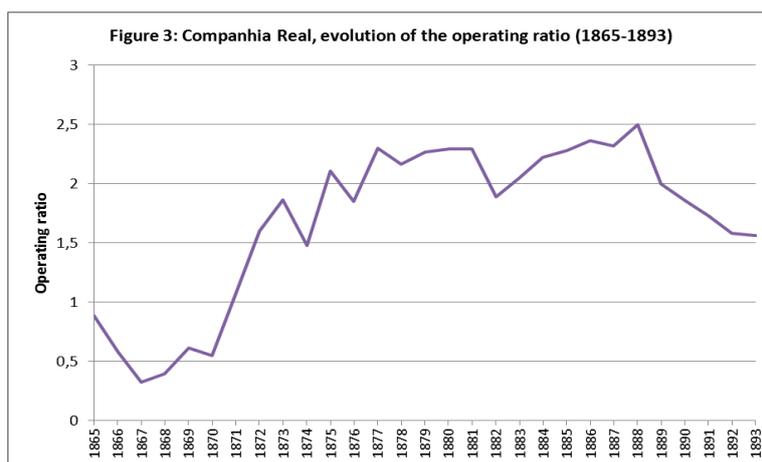
⁵² It happened on several occasions, even before the crisis. Between 1871 and 1881 these operations totaled 1,812,000\$000 (Salgueiro, 2008: 52). But after 1885 these loans to the government became more frequent and large (Minutes, session of 10th September 1885 and 16th June 1886).

⁵³ Minutes, session of 23th June 1887.

⁵⁴ Minutes, session of 3rd August 1887.

the previous financial institutions with influence in the company to access earnings from financial services and project management.

The two-headed organization that had been in place in the company for a quarter of century came to an end with the resignation of the Committee of Paris in 1887 and the subsequent modifications in the statutes of the company. The powers formerly vested in the foreign managers based in Paris lost their reason to be maintained after the Committee had been stripped away from its extensive and informal managerial control. The statutory review of 1887 removed any attributes formerly assigned to the Committee of Paris. Offices abroad continued to be stipulated (Article 11), but only for managing the company's bonds and securing arm's length provision of specialised services under instructions from Lisbon. Former requirements to be consulted on several decisions stopped to exist. Managerial control moved to the Board of Directors in Lisbon, with Portuguese majority. Along with a delegation in Paris, another office was opened in Berlin, signalling the weight of the German financial interests in the company, represented by bonds backed by the *Bank für Handel & Industrie* (Darmstadt).



The last act of this crisis occurred when the operating income decreased, following the economic recession that affected the Portuguese economy (Figure 3)⁵⁵. New debt had to be issued to rollover previous financial responsibilities. Between late 1890 and mid-1891 the *CRCFP* issued 65,500,000 francs in bonds⁵⁶. The financial difficulties of the Banco Lusitano made things even worse, as it owed large sums to the

⁵⁵ Figure 1 presents the operating ratio of *CRCFP*, representing the ratio of operating receipts per kilometre to expenses per kilometre. It exhibits the operating profitability, before netting out capital costs.

⁵⁶ See Minutes of the Board of Directors from September 1890 to June 1891.

company, thanks to the peculiar symbiosis between the two institutions since 1884. The end of 1891 was of defections at the Board of Directors and in January 1892 a financial scandal affected another protagonist of the 1884 takeover. Mariano de Carvalho had been appointed as Minister of Finance, after several years as one of the most important directors of the company. Given the company's inability to pay the interest to bondholders and in order to prevent the financial collapse, the minister advanced a large sum to the company, without the knowledge of his government colleagues (Fernandes, 2010). The political scandal precipitated the financial crisis: in February 1892, the *Companhia Real* suspended payments to bondholders and the protagonists of the 1884 takeover remaining in the company were removed after a change of the Board (Fino, 1903).

It sounded the death knell for the programme of infrastructure construction. On 13th June 1892 the Portuguese Government decided a partial default, unilaterally reducing two thirds of the foreign debt interest. Portugal's accession to the gold standard and the high availability of capital in European markets in the last quarter of the nineteenth century subsequently raised the appeal for the Portuguese sovereign debt, as well as for bonds issued by utilities and concessionaire companies operating in Portugal, a country that had been far from exemplary in meeting its external commitments for much of the nineteenth century (Esteves, 2005). The beginning of the 1890s is dramatic for the economy: the decline in the remittances from emigrants due to the political situation of Brazil imposes a strong pressure on the balance of payments; a banking crisis, generated by the fall in remittances and the difficulties to get financing abroad, started a bank run, which in turn precipitated the end of convertibility of the national currency and the abandonment of the fixed exchange rate regime in 1891; the internal political situation (English Ultimatum in 1890, republican revolt of January 31, 1891) and the abandonment of the seal of approval represented by the gold standard launched a wave of distrust on the foreign creditors about the State's ability to meet its financial commitments. The result was the sovereign debt default. Only ten years later an agreement was reached with the foreign creditors for debt rescheduling. The downside was the lasting absence of Portugal in resorting to foreign markets to place long-term sovereign debt. In addition, the country no longer returned to the gold standard, with the exception of the brief adhesion between June and September 1931.

The saint-simonian policy of “material improvements” of the Regeneration had come to an end.

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

Formally, the *CRCFP* 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 a similar way. 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 regarding the location and functioning of the Board are not critical. Decisive is how the decision-making process and the governance structure were arranged, where decisions are taken and authority exercised. And this is what can be certainly understood from this study on the *CRCFP*.

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, Mira Wilkins (1988) tended to undervalue the importance of the foreign offices to the management of the firm. In the late nineteenth century, many firms headquartered in London and doing business abroad had been characterized as “little more than a brass nameplate” (Nicholas, 1982: 606). This position was changed later, mostly in the contributions edited in Wilkins and Schröter (1998), but without a thorough analysis of the control and ownership relations.

The Committee of Paris was not the formal headquarters of the *CRCFP*, in contrast with the formal organization of free-standing companies. Even so, it did not perform a passive role in the managerial structure of the *CRCFP*. 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 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. The situation of crisis during the 1880s illustrates the importance of the Committee of Paris and a boardroom coup was needed to strip away its formal and informal competences.

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? In the case of *CRCFP* 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 sometimes "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 (1998), talking about free-standing companies, 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". This access to sources of information, technology, expertise and services would not be possible in a country like Portugal. As a result, a firm like *CRCFP* is based on foreign direct investment because the investors abroad exercised control over its operations and is a multinational firm because the foreign headquarters performed a separate activity.

Comparisons over time and across space between different dual-board structures are difficult to trace. Besides the description of the formal governance rules and organizational structures, the actual operation of firms and decision-making processes are not analysed in other studies. It is usually emphasized that local and foreign administrations were on tune and clashes on operational or strategic decisions rarely appear (Ortuñez, 1998). However, some disagreements surface in this quiet scenario (Keefer, 1996: 180; Vidal Olivares, 1999: 650), suggesting that the relations might be more problematic than what has been implied. Further research should explore a comparative approach on the characteristics of these dual-board structures.

Could the location of control evolve over time in dual-board firms? The evidence collected to this study provides some tentative answer to this question. 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 board could assemble technological expertise, synthesise it into a project solution and manage the procurement of equipment, materials and services. When railway network was stabilised and operation running smoothly, the efficient use of the investment could

place much more weight on local management⁵⁷. In this particular case, even if the *CRCFP* had been created in 1859, the 1870s and 1880s were still a time of expansion and definition of the Portuguese and Iberian network, which explains the role played by the Committee of Paris. Before the mid-1880s the tensions between the Committee and local managers and directors paved the way to the takeover of the firm by local interests and to the crisis examined above.

The similarity in the governance structures and practices between the *CRCFP* 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 *CRCFP*, the Committee of Paris' access to these specialised services was based on the integration of consulting engineers in the payroll of the firm. It seems that 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 might be 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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⁵⁷ See Casson (1998: 104) for a presentation of this argument on the balance between the location of control. The evidence assembled from studies on foreign railway companies operating in Spain seems to confirm a progressive “nationalization” of management and control.

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