

H-Net Reviews

in the Humanities & Social Sciences

Mira Wilkins, Harm Schroter, eds. *The Free Standing Company in the World Economy, 1830-1996*. Oxford: Oxford University Press, 1998. xxi + 480 pp. \$95.00 (cloth), ISBN 978-0-19-829032-2.

Reviewed by Gordon Boyce (School of Economics and Finance, Victoria University of Wellington)

Published on EH.Net (July, 1999)



The Free Standing Company: Theory and Evidence

In 1988, Mira Wilkins published what proved to be a provocative paper that identified an apparently distinctive form of multinational organisation, the Free Standing Company (FSC).[1] Whereas, the “classic” U.S.-style multinational enterprise, the subject of Wilkins’ earlier work, represented an across border extension of managerial and organizational capabilities internalized within a hierarchical structure, the FSC was a much different species first associated with British direct foreign investment. The FSC had no foundation in an established business based in the U.K., it had a very small head office at home, it raised equity from domestic investors and committed these funds overseas in sectors characterized by relatively unsophisticated technology. While the “classic” integrated multinational firm appeared in technologically advanced industries to transfer production expertise, managerial know-how, or brand identities overseas, the FSC focused on single function operations mainly in mining, infrastructure, or plantation projects. Wilkins found that many FSCs were short-lived—they proliferated especially between 1880 and 1914—either because they were financial shams or because they lacked the managerial capability to survive and prosper. Although the FSC differed markedly from hierarchical multinationals, it did support direct foreign investment as opposed to the passive portfolio type of investment that made up most of Britain’s overseas commitments. The FSC proved to be something of a misnomer, however, since they were usually affiliated with clusters of enterprises that provided through contractual as opposed to hierarchical de-

vices a range of supporting services, including, management, distribution, transport, and procurement. In some cases, FSCs were adjuncts to merchant groups and overseas business networks.

The present volume, which Wilkins edited with Harm Schoter, consists of a series of theoretical, empirical, and statistical papers presented at the Eleventh International Economic History Congress held in Milan in 1994. This is *not*, however, a typical collection of conference proceedings. Instead, the authors have substantially revised their findings in light of criticisms offered at the meetings and have taken up issues debated by the other participants. The result is a very lively volume that reflects the divergent opinions and viewpoints of eighteen leading scholars in the field of multinational business. It really is a hard volume to put down once one picks it up.

The Free Standing Company consists of four sections. The first consists of a masterful introduction to the subject and the issues by Wilkins, followed by two papers by Mark Casson and J-F. Hennart who debate the main theoretical points, and concluded with a sceptical assessment by T.A.B. Corley. The second part presents six empirical studies of countries and geographic regions that were hosts to FSCs. P. Hertner examines Italy, N Gurushina probes the Russian experience, and S. Chapman investigates India and the Far East. R. Miller explore FSCs on the West Coast of South America, R. Liehr and M. E. Torres Bautista cover Mexico, and T. Szmrecsanyi looks at

the Brazilian sugar industry. The third section considers countries from which FSCs originated. B. Gales and K. Sluyterman evaluate the Dutch evidence, while Harm Schoter examines Belgium, Germany, and Switzerland. Geoff Jones considers British banks as FSCs, W.J. Hausman and J.L. Neufeld assess U.S. overseas investments in utilities, and G. Marchildon writes on Canadian FSCs in the same sector. In the final section, Wilkins returns with an overview of the issues debated, an assessment of the usefulness of the FSC concept, and a list of suggestions to guide the direction of future work in this field.

Wilkins proposes that the FSC provides an idea of analytical and heuristic value. It has led to quantitative re-assessment of the size of direct foreign investment relative to portfolio flows and attempted to compare the extent of FSC investment with that undertaken by the integrated U.S.-style firms. Clearly, the FSC is a slippery concept: the papers reveal the problem of accurately determining national origins and the ways in which it challenges institutional theory. What is particularly fascinating in this regard is the way the FSC acted as an intermediate mode, or contractual device, for arranging various types of agreements between a network at home with another network operating abroad. With small, "lean" headquarters, the FSC as an instrument for exerting control over offshore business is the subject of debate. Here, it may be useful to consider different gradients and distinct types of influence projected by both the head office and the overseas unit. The specific nature of those assets (other than capital) that FSCs transferred abroad is another focal point for searching discussion. Linked to these issues is consideration of the sectors FSCs invested in: what was their competitive advantage as coordinating instruments? In this regard, the characteristics of their home and host countries are important as is the broader social and political context they operated

in. The relationship between FSCs and the clusters of enterprises that supported them is another fascinating area, and a number of chapters identify promising approaches for future work. Finally, the reasons for the decline—but not the complete disappearance—of these firms raises questions about institutional durability in the face of environmental change.

The range of concerns raised by the concept attests to its value and must attract a wide readership to this volume. Those interested in institutional economics will find the theoretical chapters and the case studies particularly stimulating. The book will be useful to scholars of multinational enterprises of all types, international business, and, of course, business and economic history. The volume will also serve as a teaching tool for showing advanced students how leading authorities develop questions and refine their methods of inquiry while they grapple with the implications of a new concept. Finally, *The Free Standing Company* provides a model for anyone intending to arrange for the publication of conference proceedings in a way that closely integrates individual contributions, provides complementary perspectives on a central topic, and preserves the true spirit of scholarly inquiry.

Note

[1]. Mira Wilkins, "The Free-Standing Company, 1870-1914: An Important Type of British Foreign Direct Investment," *Economic History Review* 41, no. 2 (1988): 259-282.

Copyright (c) 1999 by EH.NET and H-Net. All rights reserved. This work may be copied for non-profit educational uses if proper credit is given to the author and the list. For other permission, please contact the EH.NET Administrator (administrator@eh.net; Telephone: 513-529-2850; Fax: 513-529-3308).

If there is additional discussion of this review, you may access it through the network, at:

<http://eh.net/>

Citation: Gordon Boyce. Review of Wilkins, Mira; Schroter, Harm, eds., *The Free Standing Company in the World Economy, 1830-1996*. EH.Net, H-Net Reviews. July, 1999.

URL: <http://www.h-net.org/reviews/showrev.php?id=3282>

Copyright © 1999, EH.Net and H-Net, all rights reserved. This work may be copied for non-profit educational use if proper credit is given to the author and the list. For other permission questions, please contact the EH.NET Administrator (administrator@eh.net; Telephone: 513-529-2850; Fax: 513-529-3309). Published by EH.NET.