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# Dubrowka - a free-standing company from a Norwegian family-network capitalism

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## ABSTRACT

The first globalisation, in the decades around 1900, was propelled by free-standing companies. This article discusses the establishment of a Norwegian free-standing company in Russia in 1910. It was the culmination of an eastwards movement from the Norwegian forest industry that went through Sweden and Finland before reaching Russia. The article discusses who controlled the company, and how this changed over time. It makes two main contributions to the literature. Firstly, how a family network can solve some of the puzzles free-standing companies have posed to theories of international business, especially regarding the origins and internalisation of ownership advantages. Secondly, it shows that, although free-standing companies were important for the first global economy, they were also integral to the deglobalization that followed.

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## Introduction

In 1910, a group of Norwegian investors and industrialists established a company in Russia, aiming to exploit the country's enormous forest resources and later to take advantage of the potential market for paper. The venture was preceded by a wave of foreign direct investment (FDI) in the forest industry in Sweden and Finland, emanating from Norwegian family-network capitalism. The venture in Russia was initiated and directed by Elias C. Kiær, who was a leading figure of the Norwegian 'lumber aristocracy', and Alexander Gullichsen, the managing director of Gutzeit, a Norwegian-owned company in Finland.

To begin with, a forest property was bought at Petrowskoje, south of Lake Ilmen, approximately 200 kilometres south of St. Petersburg.<sup>1</sup> Gullichsen and Kiær were attracted by the massive size and amount of timber, with the intention to sell this on the Western market. The operations at Petrowskoje were not a success, however, and therefore the company changed strategies and bought a property called Dubrowka in 1911, on the northern bank of the River Neva, some 40 kilometres from St. Petersburg, which was also going to produce paper for the Russian market. The company was renamed after the property – for the sake of simplicity, the company will be only referred to as Dubrowka here. It was under Finnish administration in its first years, but encountered serious problems. The Norwegian investors took control of the company in 1913 and installed young managers from their family and network. The young managers reorganised the project – the sawmill was shut

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<sup>1</sup>Sometimes the property was called 'Petrovsk', at other times 'Petrovskoje'. Several places in Russia have similar names, but the property referred to here, south of Lake Ilmen, was called Petrowskoje in the letters and corporate documents. Gullichsen, A. (1910, September 16). [Letter Elias C. Kiær]. RA.

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down and another paper machine installed. Despite the troubles related to the First World War, the company had promising results, especially in 1916. Nevertheless, the Russian Revolution, which resulted in the nationalisation of the company, undermined the enterprise, and there is little knowledge of its development after that (Westlie, 1991).

Dubrowka was part of the first global economy, 1870–1914 (Jones, 2005). Russia was one of the main recipients of FDI in this period, which was essential for its industrialisation (Kim, 1995; Kragh, 2014, p. 13). The biggest FDI holdings in Russia in 1917 were French, British and German (Ol, 1983, p. 167). Sweden had considerable FDI in Russia, amounting to 23 million rubles (RBS), approximately 1.1% of the FDI stock in Russia in 1917 (Kragh, 2014, p. 7). Norway was far behind this. Still given that the FDI related to paper, lumber and wood processing in Russia is estimated to total 57 million RBS in equity value (Ol, 1983), there is good reason to believe that the Norwegian share of FDI in this industry was considerable.

Dubrowka was a free-standing company (FSC), meaning that it had no operating mother company at home. The FSC, as a phenomenon and analytical concept, holds important lessons. First, the FSCs are relevant for today's globalised business, especially for the 'born globals' and new international ventures (Jones & Khanna, 2006; Mollan, 2018; Mudambi & Zahra, 2007; Zander, McDougall-Covin, & Rose, 2015), in terms of their control and ownership advantages. Second, FSCs can provide insights into deglobalization. Given FSCs' importance and relevance, it is praiseworthy that Simon Mollan contributes to theoretical reflection about them (Mollan, 2018). This article adds to this, but also criticises Mollan.

Dubrowka grew out of family network capitalism. Thus theories and literature about both FSCs and family networks are pertinent to the subject. The article addresses these two issues. First, it shows that Dubrowka, as an instance of foreign direct investment, grew out of Norwegian family-network capitalism. Thus it shared traits with both family network companies and FSCs, and sometimes such traits were in conflict. Second, the case of Dubrowka contributes to the literature on free-standing companies. The main research questions concern the control of Dubrowka. What was the degree and location of control of the company, and how did it change over time? This allows us to categorise the venture as a foreign investment, whether it was a FDI or a FSC, and whether it was Finnish or Norwegian.

Investors' control is what distinguishes FDI from other forms of foreign investments. The crucial aspect is that the investors manage the operations in a foreign country. Consequently, the financial investments are accompanied by other resources, such as technology, management skills, knowledge, and access to foreign markets. This is why, in terms of economic development, FDI is regarded as more important than portfolio investment (Dunning, 1994). A key issue regarding control and transfer of other resources is the ownership advantages which underpin the FDI, their origin and how they are transferred to, and exploited in, foreign locations.

Ownership advantages have a key role in theories of FDI and international business. This role, however, has been hard to square with FSCs, as they do not have operations at home. Hence, there are no firm-specific advantages in FSCs, and the FSC cannot internalise ownership advantages in a traditional manner, i.e. through a corporate structure. Different scholars have suggested different solutions to this puzzle (Casson, 1994; Hennart, 1994). This article contributes to this discussion and shows how ownership advantages can originate and be internalised within a family network structure. The article also highlights a traditional challenge for FSCs, namely the lack of a home office to orchestrate the maintenance and nurturing of ownership advantages. Thus, FSCs were vulnerable to a relative decline in ownership advantages. This often went hand in hand with the naturalisation of the company and/or a move towards managerial capitalism, both of which led to a transfer of control and ownership. Thus, this is not merely a story of globalisation, but also of *deglobalization* – how owners lost control of their FSCs. A deeper understanding of how control and ownership advantages are transferred to host-nations is relevant for the present tendency of deglobalization (Jones, 2019b).

The empirical foundation of this article is first and foremost the large personal archive of Elias C. Kiær, with outgoing and incoming correspondence during the whole period. The personal letters from and to Kiær give a privileged insight into actors' nuanced considerations and assessments.

These are located at the archive of the Norwegian Forest Museum at Elverum, which also includes the archive of And. H. Kiær & Co, which has important material on the companies in Russia, such as official documents from Petrowskoje and Dubrowka. In the Norwegian State archive (Riksarkivet), there is an archive from Dubrowka, with official documents from Petrowskoje and Dubrowka, annual reports and letters to the directors, shareholders and banks.

The first section will provide the theoretical and analytical framework of the article. The next section looks at the Norwegian entrepreneurs' eastward expansion, prior to the Russian investment, as well as the Kiær-Solberg family's industrial growth from the new generation that took charge in 1895. The third section looks at the first years in Russia, when Dubrowka was under Finnish administration. The fourth section describes Dubrowka under Norwegian control, while the fifth section looks at the last years in Russia. The concluding sections sum up the main findings.

### Theories and concepts related to free-standing companies

The accumulated stock of FDI in 1913, as a share of global GDP, is estimated at 9 per cent (Jones, 2005, p. 21). A main reason for the high number is that investments which were formerly regarded as British capital export or portfolio investment were re-classified as FDI, thus asserting that the British investors controlled the foreign operations. Wilkins called these companies FSCs (Wilkins, 1988, 1998, p. 4 and 47). They were controlled by their owners in the home nations, but had no operations at home. The FSC was a way to organise a project and bring together a set of expertise and skills, long before the Chandlerian integrated company became the dominant multinational form.

FSCs were predominantly a British phenomenon. Still, FSCs were essential to other countries as well, like Norway. The Norwegian forest industry's investments in Both Finland and Dubrowka were in the form of FSCs. Moreover, it was also important for inward FDI in Norway. The three largest foreign owned companies in Norway in the early 1900s – Norsk Hydro, Kelner Partington (Borregaard) and Hafslund – were FSCs or shared similarities with them (Bergh & Lange, 1989; Christensen, 2003; Sogner, 1998).

The FSCs were typically aimed at extracting natural resources (Hennart, 2000). They were also important for building infrastructure in a broad sense, such as banking, insurance, telecommunication or paper production. The FSCs were often project-oriented, and therefore short-lived. It was 'normal for the investment to be sold off and for the firm to be wound up after completion', according to Godley and Casson, 'once the power plant was built, or the mahogany plantation or the tin mine operational' (2010, p. 251). Others 'just expired because they were not viable' (Corley, 1994, p. 110). Many of the British FSCs had passive owners (Wilkins, 1988). In as much as this was the case, it was the headquarters of the British FSCs that were in control of the foreign operations, not the shareholders.

The FSC is important in itself, and crucial to understand the first globalisation. Moreover, the phenomenon has attracted considerable theoretical interest as well, as it poses challenges to the prevailing theories of FDI, especially related to control and ownership advantages. A key assumption is that businesses going abroad need ownership advantages in order to compete with local competitors in the host-country (Dunning, 1988, 2000, 2001; Hymer, 1960). These ownership advantages were developed and augmented through domestic operations in the firm, which formed the basis for international expansion (Vernon, 1966). This does not apply to FSCs, as they did not have domestic operations. Hence, a critical issue regarding FSCs is to explain the origins and location of the ownership advantages that underpinned the international investment.

One explanation is that FSCs benefitted from advantages related to the home country. An example is that many British FSCs reaped rewards from corporate clusters in London, where different persons and groups offered essential corporate services (Mollan, 2018; Wilkins, 1988). British FSCs also benefitted from industry specific competence; instances were mining engineers and experts who assisted British mining companies which were going abroad (Harvey & Press, 1990). This points to the fact that ownership advantages can be developed and sourced from outside the boundaries of

the firm (Casson, 1998), in networks or business systems. According to Geoffrey Jones, the ‘focus on the creation of managerial hierarchies’ has ‘led to the neglect of the role of business systems as a source of organisational capability’ (1999, p. 3). Simon Mollan is on the same page, accentuating that a firm’s economic boundaries do not necessarily coincide with its legal boundaries (2018).

This is pertinent for Dubrowka and other Norwegian FSCs, which emanated from Norwegian family-network capitalism (Sejersted, 1993, 2001; Sogner, 2002; Sogner & Christensen, 2001). Thus, features and traits of personal and family capitalism are important for seeing how ownership advantages are created, cultivated and controlled. Some have seen family businesses and business groups as less rational than the managerial enterprise (Chandler, 1990), while others acknowledge family and business groups as rational responses to certain circumstances (Jones, 2019a; Jones & Khanna, 2006). There are potential advantages and disadvantages derived from being part of a family and/or network, which are relevant for explaining Dubrowka’s development (Casson, 1999; Church, 1993; Colli, 2016; Colli & Rose, 2008; James, 2009; Jones, 1999).

Many studies during the last decade have emphasised that families are motivated by more than financial returns, e.g. family control and influence, identification, binding social ties, emotional attachment and renewal of family bonds may be equally important. These factors have been subsumed under the concept *socioemotional wealth theory* (Berrone, Cruz, & Gomez-Mejia, 2012; Colli, 2016, p. 61; Wu, 2018). This is a rewarding concept when reflecting on the motives for the Russian venture. Moreover, family businesses, in order to preserve family control, are perceived to be more risk-averse (Hiebl, 2014; Mishra & McConaughy, 1999; Wu, 2018). This trait, however, does not apply to FSCs, which were often very speculative and risky (Hennart, 2000).

The family network is also relevant for the internalisation of ownership advantages. In theories on traditional multinationals, it is assumed that the ownership advantages are internalised within corporate structures, stretching from the home-nation to the host-nation. The FSCs do not sit easily with this assumption as such a corporate structure did not exist. Internalisation theorists have come up with three suggestions to solve this puzzle. The first is to claim that the lion’s share of the ownership advantages is located in the host-country, with the local entrepreneur. These entrepreneurs were usually expatriates from Britain, residing in the host-nation (Casson, 1994; Lopes, Casson, & Jones, 2019; Wilkins, 1988, 1998). Some even talked of expatriate investments (Stopford, 1974). This creates another paradox: if the ownership advantages are located abroad, it is not obvious how the company is controlled from the home country, which is a condition for being an example of FDI. A second suggestion is from Casson, who claims that the headquarters’ ownership advantages lay within property development: ‘Free-standing companies were mainly concerned not with manufacturing, but with property development in its various manifestations’ (1994, p. 95).

A third solution is from Hennart who asserts that the ownership advantages from the home nation were based on the ‘international transfer of financial capital’ (1994, p. 51). The FSCs internalised the acquisition of the capital by vertically integrating backwards to the home nation. Hennart took the original view that ‘financial capital is an intermediate factor like knowledge, goodwill, raw materials, or distribution services’ (1994, p. 54). He found support for this in the fact that the FSCs’ home nations were capital-exporting countries, while the host-nations were capital-poor (Hennart, 2000, p. 96). Moreover, FSCs were usually in speculative and high-risk industries, which ‘cannot generally obtain debt financing, and have to be financed through equity’ (Hennart, 2000, p. 96).

Ownership advantages are crucial for FSCs in another sense. Traditional multinational companies rejuvenate and augment ownership advantages based on their home operations, and through an interplay with overseas subsidiaries (Christensen, 2006; Jones & Wadhvani, 2017; Narula & Dunning, 2010). This is by definition not the case for a FSC, as it lacks an operating mother company. Moreover, in some instances, the ownership advantages spill over to locals, so the relative advantage diminishes and leads to a transfer of ownership (Christensen, 2003). Changes in relative ownership advantages have a strong impact on the nature of control over investment and the enterprise, which includes the location of control (Casson, 1998). Related to this, owners’ relative ownership advantages will often shrink over time, and at some point the question will arise: ‘What are the owners

contributing to the business, apart from extracting profits?’ (Wilkins, 1988, p. 276) Thus, the possibility of an ownership transfer from the home to the host-nation increases.

Several FSCs were subject to nationalisation, others just ‘passed into host-country ownership’ (Corley, 1994, p. 110). Sometimes the ownership transfer to the host-country was the plan all along, with a “‘build-operate-transfer” system’ (Casson, 1994, p. 102). An ownership transfer might also be due to a gradual naturalisation, which could imply a change in ownership (Tenent, 2009, p. 14 and 91). *Naturalisation* was also used for people, for instance when expatriates assumed the nationality of their host-nation (Lopes et al., 2019), which could lead to a transfer of ownership.

The ephemeral nature of FSCs led Wilkins to denote them as a second rate FDI, with a ‘tiny home office’, a ‘lean governance structure’ (1988, p. 277), and a ‘lack of effective direction and administration’ (1998, p. 6). Conversely, Jones asserts that FSCs often have ‘been robust, employing socialization methods of control in place of formal bureaucracy’ (Jones, 2019b, pp. 19–18). Mollan is particularly scathing, claiming that Wilkins follows in Alfred D. Chandler’s footsteps and ‘lionizes the superiority of American business methods and management structures’, and that this is the foundation for Wilkins’ disparaging assessment of the FSC (Mollan, 2018, p. 158).

Mollan is critical of Wilkins’ conceptual construction, which he sees as ‘a negative categorization’, based on not being a US multinational. As such, according to him, the FSC concept is ‘a “zombie” category that masks and misdirects knowledge of a phenomenon of considerable importance to international business history’, and possesses ‘little or no ability to explain change over time’ (2018, p. 157). Mollan’s point is that the FSC covered a range of different companies and industries, and that this diversity was more important for the overall organisation and governance structure, than the fact that they were all FSCs. (2018). We will return to Mollan’s critique in the conclusion. But with this as a background, the article now turns to the eastwards movement of the Norwegian forest industry.

### A wave of investments from a family-network capitalism

Dubrowka was part of an eastwards wave in the Norwegian forest industry that went through Sweden and Finland before reaching Russia in the first decade of the twentieth century (Glete, 1994; Sejersted, 1980; Sogner & Christensen, 2001; Werner-Hansen, 1970). The venture in Russia was based on the previous investments in Scandinavia, and especially in Finland – hence we need to look briefly into this.

As investors, Norwegians played an important role in the take-off of the Swedish forest industry in the 1850s, but they were also influential as engineers or foresters (Sejersted, 1980, p. 267). An example was G. P. Braathen, a Norwegian who invested heavily in Sundsvall from 1870. Braathen was naturalised and became one of the Swedish ‘lumber patrons’.<sup>2</sup> He was a close associate of Elias Kiær, who also served on the board of Sundsvall Cellulosa. The Kiær family also invested in Swedish forest companies. Søren W. Mørch was a renowned Norwegian engineer and a close associate of Kiær and he played a key role in building up the system in Sundsvall, not least its transition from lumber to pulp (Sogner & Christensen, 2001).

From the 1860s, Norwegians moved to Finland to exploit the resources there. Using the rivers as a means of transportation for lumber was allegedly a Norwegian innovation, and they were among the first to use the large Kymmene river to float the lumber from further north in Finland down to Kotka (Sejersted, 1980, p. 272). Norwegian entrepreneurs established companies in Finland, the most famous being Gutzeit. Hans Gutzeit moved from Fredrikstad to Kotka, and established the ‘Norwegian steam saw’ in 1872. This was the first big steam saw in Finland, and soon many more followed. From then on there was a large colony of Norwegian technicians, mechanics, and workers with their families who settled around the sawmill (Ali-Yrkkö, Lehmus, Rouvinen, & Vihriälä, 2017, p. 28).

<sup>2</sup><https://sv.wikipedia.org/wiki/Träpatron>.

Hans Gutzeit sold the company to other Norwegian investors – Hans Ludwigsen and Thorleif Schjelderup – who operated it as a Norwegian FSC.

In 1906, the Norwegian Alexander Gullichsen became managing director of Gutzeit. Until his death in 1917, the company more than tripled its output of lumber and – after the acquisition of Enso in 1911 – became a substantial producer of pulp and paper. Gutzeit developed into a large integrated corporation, and according to Helander (1949, p. 274), possessed 474,000 hectares of forest in 1918 (Hoving, 1961, p. 140). It is noteworthy that under Gullichsen's leadership Gutzeit's annual meetings were held in Kotka. Another important development, which Gullichsen shared with many other expatriates, was that he became a more or less naturalised Finn and came to see Gutzeit – and Russia – from a Finnish perspective.<sup>3</sup> An important point is that Finland was part of the Russian Empire, although it enjoyed considerable autonomy as a Grand Duchy between 1809 and 1917. Gullichsen expanded Gutzeit's business into Russia. The company bought lumber at auctions and supplied the Russian market with paper. These operations made Gullichsen aware of – and interested in – the opportunities in Russia.

It is necessary to look briefly into Elias Kiær and his family's background, before the paper turns to the Russian venture.

In 1895, Elias Kiær and two other family members, P. C. Solberg and Hans C. Kiær, replaced the former generation as directors of the family company, And. H. Kiær & Co, which was owned by the Kiær-Solberg-family (Helland, n.d.; Sogner & Christensen, 2001). Besides owning forests and running a sawmill, it was an investment company and to some degree functioned as a head office for the family's widespread interests in several businesses. Kiær and his family expanded its business operations significantly around 1900. Most of the businesses Elias Kiær was engaged in, involved investment not only by him personally, but also by And. H. Kiær & Co, other family members and 'associates'. Hence, it was a classic example of family network capitalism, where Elias Kiær was the *pater familias* and a dominating player in the network.

During this period, Norwegian society went through a rapid transformation, in line with that of other countries during the second industrial revolution. Norway was no exception regarding the 'importance of family business in early industrialization' (Colli & Rose, 2008, p. 197). The many family-owned businesses in Norway were not integrated into large companies as was normal for Chandler's managerial capitalism. In Norway, several smaller companies were linked together through networks and associations (Sogner, 2002). Thus, many Norwegian companies were loosely attached to each other, through family-network capitalism. They were, in effect, subunits to a family network, but did not have mother companies. In this way the companies were like domestic FSCs, where the ownership advantages were as much in the family network as internalised in the companies themselves.

Another factor was that the Norwegian Company Act, which codified limited liability, was not introduced until 1910, 62 years later than in Sweden. However, due to the principle of freedom of contract, it was straightforward to form limited companies without public regulation or governmental approval (Michalsen, 2011, p. 389). Nevertheless, the lack of regulation – not least regarding transparency and protection of minority shareholders – made the family network, characterised by trust, reputation and reciprocity, crucial in Norwegian business (Sogner, 2002; Sogner & Christensen, 2001).

Kiær and the family invested in and restructured companies in Trøndelag in the middle of Norway, in Sweden, in Finland, and eventually in Russia. Kiær was eager to control the value chain by buying forest, erecting sawmills, shipping for export, and by establishing trading companies to ease access to export markets. The Kiær-Solberg family was engaged in other industries as well, such as

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<sup>3</sup>In 1890, Gullichsen adopted Finnish citizenship, primarily to facilitate his work as a business executive. His Finnish wife, Ines Brunila, certainly contributed to the fact that most of the family members stayed in Finland and became influential actors in business and culture.' Translated from Swedish. 'GULLICHSEN, Alexander (1865–1917) Industriidkare, företagsledare' in Biografiskt lexicon för Finland (<http://www.blf.fi/artikel.php?id=4282>).

electrical engineering, carbide production and production of canned milk. Still, forest industry was the main business, and as with Gullichsen and Gutzeit, Kiær and his family became more interested in pulp and paper from around 1910. Kiær and Gullichsen pursued many of the same goals; Gullichsen on behalf of Gutzeit and Kiær on behalf of his family and network.

Both were adventurous entrepreneurs. It is not certain when they first met, but the correspondence between the two took off in 1908. It seems that they saw eye to eye on a number of things, and the tone in the letters soon became familiar and conversant (Sogner & Christensen, 2001). Kiær assisted Gullichsen in Gutzeit's attempts to buy the Norwegian company, Halla, and the part-Norwegian firm, Tornator, in Kotka in 1909 (Ojala, Lamberg, & Melander, 2008; Sogner & Christensen, 2001; Werner-Hansen, 1970). The plan was for Kiær to buy these companies first and then merge them with Gutzeit, thus making Kiær a substantial shareholder in Gutzeit. The plan failed, but it illustrates that Kiær was keen on operating in Finland and that he was attracted by the resources surrounding the Baltic Sea. The plan also illustrates that Gutzeit and Gullichsen adhered to the Chandlerian pattern of integrating related companies into larger businesses.

There are no exact accounts of when Gullichsen and Kiær decided to move into Russia, but it was undoubtedly their joint project. Other Norwegian investors with close ties to Kiær-Solberg joined in.

### Under a Finnish administration company, 1910–1913

In May 1910, Kiær and other Norwegians attended Gutzeit's General Assembly in Kotka. Then Gullichsen was assigned to look for a property in Russia, and report back to the Norwegians.<sup>4</sup> In September, he wrote to Kiær about a property in Petrowskoje, 'and invited him on a joyride to Russia'.<sup>5</sup> Gullichsen's interest was triggered by shrinking resources in Finland and the vast resources in Russia, and he wrote to Elias Kiær that the trees in Petrowskoje had monstrous dimensions.<sup>6</sup> In order to make a rough estimate of the value of the forest, he counted the trees that were at least 7 metres tall and 8 inches wide. He said there were at least 40,000 trees of this size. He estimated all the costs related to cutting, sawing, transporting and selling it as lumber, to be RBS 40 per tree. Thus with an average price of RBS 70, these trees would provide a profit of RBS 1,200,000. They could buy the property for RBS 350,000.<sup>7</sup> In addition, there were many trees of smaller dimensions that also would be profitable as lumber. Moreover, there was an abundance of smaller wood which could be used for pulp and paper. A paper factory in Russia would avoid the tariffs Gutzeit had to pay on paper exports to Russia.<sup>8</sup> 'Regarding capital', Gullichsen wrote to Kiær in 1910, 'there is little to be reckoned with here', meaning in Finland. But he did not think it would be a problem to raise enough funds for the acquisition, 'as long as you and other big Norwegian Matadors' join in.<sup>9</sup>

Elias Kiær travelled with Gullichsen to Petrowskoje in October.<sup>10</sup> There is little information about this trip, but Kiær must have been convinced of the opportunities, as Gullichsen was given the green light to buy an even larger property at Petrowskoje than initially intended.<sup>11</sup> After having purchased it, Gullichsen described the process of buying property in Russia in a letter to Kiær in December 1910. 'During such an acquisition, one gets a vivid impression that Russia is a country where one must be careful and where no one believes each other.'<sup>12</sup> The correspondence shows that Kiær and his Norwegian associates knew little or nothing of property acquisition and management in Russia. Kiær asked Gullichsen in a letter: 'Are there no obstacles for Norwegians buying forest-

<sup>4</sup>Kiær, E. C. (1910, May 19). [Letter to Alexander Gullichsen]. EKPA.

<sup>5</sup>Kiær, E. C. (1910, October 31). [Letter to Carl Gutzeit]. EKPA.

<sup>6</sup>Gullichsen, A. (1910, September 16). [Letter to Elias C. Kiær]. RA.

<sup>7</sup>Gullichsen, A. (1910, September 16). [Letter to Elias C. Kiær]. RA.

<sup>8</sup>Kiær, E. C. (1910, November 5). [Letter to Carl Bull]. EKPA; and Petrowskoje's annual report and Dubrowka's constitutive meeting (1912, November 23). AKCA.

<sup>9</sup>Gullichsen, A. (1910, September 16). [Letter to Elias C. Kiær]. RA.

<sup>10</sup>Kiær, E. C. (1910, October 31). [Letter to Carl Gutzeit]. EKPA

<sup>11</sup>Kiær, E. C. (1910, November 5). [Letter to Carl Bull]. EKPA

<sup>12</sup>Gullichsen, A. (1910, December 22). [Letter to Elias C. Kiær]. RA.



property in Russia?<sup>13</sup> Thus, the initial phase lends little support to Casson's claim regarding property development as an ownership advantage for the investors in the home nation (1994); it rather supports to Hennart's assertion regarding capital export (1994, 2000).

The next step was to finance the project. A company was set up, which attained RBS 1 million in share capital. The Kiær-Solberg family took 47 per cent of the shares – through And. H. Kiær & Co, the three senior directors, other family firms and some smaller stakes for other family members. Two close friends and business associates of Elias Kiær, Einar W. Egeberg and Ole Stang, were in on the plans from the beginning and participated in trips to Kotka and Russia. They signed up for 13 and 10 per cent, respectively. Gullichsen, who was not as affluent, took 7.5 per cent, and Colonel Sohlberg, took 4 per cent. Thus, the five promoters controlled almost 80 per cent of the company and were also the directors of the company. The remaining 20 per cent was held by other Norwegian investors, who did not take an active part in the enterprise. Most corporate meetings, such as General Assemblies, were held in Oslo. And. H. Kiær & Co served as the postal address for the company in Norway, while several meetings and discussions were held at Elias Kiær's regular hotel in Oslo (Table 1).

Petrowskoje's constituent General Assembly was held at Ludwigsen & Schjelderup's offices in Oslo, thus underpinning the links to both Gutzeit and Norway.<sup>14</sup> It is interesting that Gutzeit did not participate as a shareholder.<sup>15</sup> One reason is that Gutzeit's financial resources probably were strained after the company's expansion in Finland. It is also reasonable to assume that Gullichsen and Kiær looked upon this as their own project, and thought they were capable of carrying it out alone.

In the initial phase, Gullichsen handled the operation. Kiær and the other large shareholders corresponded frequently with him, but left major decisions to Gullichsen. A case in point was when Gullichsen told Elias Kiær that Russia was 'a country where you have to be very careful and where nobody believes each other'.<sup>16</sup> Hence, Gullichsen wanted to employ a person with military background as head of the Dubrowka's Directorate, 'direksjonen' in Norwegian. This was a mixture between the present Norwegian (supervisory) board, and top management in the company. The chairman of the directorate was head of the company, and the manager director had a more subordinate role than that of current CEOs. Gullichsen told Kiær that things were so challenging in Russia that it would be 'of tremendous significance to have a person of higher rank than all the civil servants we have to deal with'.<sup>17</sup> Thus, Colonel Fredrik Sohlberg was appointed as head of the Directorate. He was Finnish, but since Finland was part of the Russian Empire, Sohlberg had served in the Russian military. Elias Kiær wrote to Gullichsen, that he and the other Norwegians thought it was strange to hire a military person to run the business, but nevertheless assured him that they would not come up with any serious objections.<sup>18</sup>

In his September letter to Kiær, Gullichsen wrote that the Russians did not run their sawmills in a rational manner at Petrowskoje. The present sawmill had an awkward location, as it required transportation of planks by boat down to Lake Ilmen, which was only possible in a limited period during the spring flood.<sup>19</sup> Gullichsen wanted to float the lumber from Petrowskoje to Lake Ilmen, place a sawmill there, and bring the planks by boat to St. Petersburg.<sup>20</sup> Knowledge of floating the lumber was a key ownership advantage when the first Norwegians entered Finland in the 1860s, and Gullichsen hoped he could repeat the success. In addition, he said that the Russians in Petrowskoje

<sup>13</sup>Kiær, E. C. (1910, October 3). [Letter to Alexander Gullichsen]. EKPA.

<sup>14</sup>Kiær, E. C. (1911, February 5). [Letter to Petrowskoje's shareholders]. AKCA, 'And. H. Kiærs & Cos innenlandske kopibøker, 1910, M 108'.

<sup>15</sup>The authors tried to find out why Gutzeit did not take part in Dubrowka, by sending an historian to Kotka to examine Gutzeit's archives. He found several interesting things, but little that could shed light on Dubrowka.

<sup>16</sup>Gullichsen, A. (1910, December 22). [Letter to Elias C. Kiær]. RA.

<sup>17</sup>Gullichsen, A. (1910, December 22). [Letter to Elias C. Kiær]. RA.

<sup>18</sup>Kiær, E. C. (1911, January 14). [Letter to Alexander Gullichsen]. EKPA.

<sup>19</sup>Gullichsen, A. (1910, September 16). [Letter to Elias C. Kiær]. RA.

<sup>20</sup>Gullichsen, A. (1910, September 16). [Letter to Elias C. Kiær]. RA.

**Table 1.** Shareholders in Dubrowka.

Active owners	Shares	%	Passive owners	Shares	The share capital
And. H. Kiær & Co.	60	47%	J. C. Juel	40	1911 1 million Rbs
Elias C. Kiær	60		Fred Olsen	40	1912 2 million Rbs
Hans Kiær	60		Chr. Mathiesen	10	1916 4 million Rbs
P. C. Solberg	40		Chr. B. Lorentzen	5	
van Severen & Co.	40		Thomas Schjelderup	10	
Fritz Kiær	16	13%	Kristoffer Mørch	2	
Thorry Kiær	4		Einar Wettre	5	
Einar W. Egeberg	40		Total number of shares	596	
Westye Egeberg & Co.	40				
Ole Stang	40	9%	The shareholders stayed more or less the same from 1910-1918.		
Mads Stang	16	11%	There was some changes due to the death of Fredrik Sohlberg, and that some new shareholders joined in in 1916.		
Alex. Gullichsen	45				
Fredrik Sohlberg	23				

Note: (Nilsen, 1995, p. 71), After Protocol from Nordisk Finans & Holding A/S: Report from constitutive meeting (February 1918.), RA.

were 'entirely in the hands of the leading London agents'.<sup>21</sup> By this Gullichsen meant that due to lack of information and experience, the Russians were vulnerable when selling lumber to agents in London. This was not the case for Kiær and Gullichsen, who knew the international market well.

As it turned out, it proved difficult to run the business in a rational manner. There were especially problems with floating the lumber from Petrowskoje to Lake Ilmen. It had to be done by April, during the spring flood, which meant that the lumber was floated before it was dried out, which hampered the quality. There were other difficulties as well, which led Sohlberg to conclude 'that a continuation of the business at Petrovskoje (sic.) was considered to be unprofitable'.<sup>22</sup> One might think that the bad experience in Petrowskoje would have led to some caution. In fact, the shareholders agreed to increase the investments in Russia. The plan was to float the lumber to a sawmill closer to St. Petersburg. In June 1911, a property was found, at Dubrowka by the River Neva, and in September the same year, the sawmill in Petrowskoje halted production. Moreover, it was decided to set up a paper factory at Dubrowka.<sup>23</sup> This decision was taken shortly after Enso-Gutzeit had started producing pulp and paper (Figure 1).

The acquisition of Dubrowka changed the character of the enterprise in major ways. First, Dubrowka was to be established within the region to the east of the Baltic Sea, which was familiar to Gullichsen and Gutzeit. Being on the banks of the River Neva, it had access to the great lakes of Onega and Ladoga, the large forests that surrounded these lakes, and the myriad of rivers flowing into them, stretching into the Finnish woods. In addition to supplies from Petrowskoje, Dubrowka relied on wood from Russian and Finnish state-owned forests and from private suppliers. Second, it changed from an adventurous lumber project, focused on making fast profits on Russian resources, to an industrial project that would require more resources and attention. It would require the transfer and co-ordination of more resources, in terms of capital goods, technology and skilled personnel. Finally, the investment in the pulp and paper factory dwarfed the preceding investments at Petrowskoje.

The Norwegian directors gave Gullichsen a free hand in procuring Dubrowka. Kiær congratulated Gullichsen on the 'Neva-property' in a letter in August 1911. Although Kiær thought it was expensive, he assured Gullichsen that 'the Norwegian directors accepted what you have done'.<sup>24</sup> Even if Colonel Sohlberg was head of the Directorate, and Gullichsen formally was just a member of it, it is clear from the correspondence that Gullichsen had a leading role regarding Dubrowka. Still, he was living in Kotka, not in Dubrowka. Thus, he was not a classical expatriate running an FSC – rather Gullichsen and Sohlberg managed the company in tandem. Kiær and his Norwegian companions

<sup>21</sup>Gullichsen, A. (1910, September 16). [Letter to Elias C. Kiær]. RA.

<sup>22</sup>Petrowskoje's annual report and Dubrowka's constitutive meeting (1912, November 23). AKCA.

<sup>23</sup>Petrowskoje's annual report and Dubrowka's constitutive meeting (1912, November 23). AKCA.

<sup>24</sup>Kiær, E. C. (1911, August 28). [Letter to Alexander Gullichsen]. EKPA.



**Figure 1.** Map over Scandinavia and Western Russia.

had played a subordinate role so far. Their main contribution during the first years was capital, which was important enough.

With the expansion in 1911, the capital requirement had increased to RBS 3.8 million, almost NOK 8 million, or £500,000.<sup>25</sup> The shareholders doubled their investments, up to RBS 2 million, while two loans, with security in Petrowskoje and Dubrowka, amounted to RBS 300,000. Thus, Elias Kiær and his fellow directors had to raise another RBS 1.5 million unsecured loans.<sup>26</sup> Therefore, the directors had to confer a personal guarantee to the Norwegian bank, DnC, for the loan.<sup>27</sup> This also applied to Gullichsen and Sohlberg. The personal guarantee underscores Hennart's point that FSCs were speculative and high-risk industries, which 'cannot generally obtain debt financing' (2000, p. 96). Kiær said, in relation to another deal, that it was against his principles to confer personal guarantees. The fact that Kiær broke this principle says something about his commitment to the Russian investment.<sup>28</sup>

Hennart's theory – that the investors' main ownership advantage is financing – is a fair description of the first years in Russia. Elias Kiær and the other Norwegian directors were active in analysing and discussing strategies and plans with Gullichsen, through considerable correspondence and personal meetings in Kotka and Oslo. However, after the strategic and financial questions were settled, Gullichsen, Sohlberg, and other Finns from Kotka handled the day-to-day management at Dubrowka. Thus, it seems like a classic case of an expatriate running the company, after the owners provided high-risk finance. Then again, the sources, personal letters and corporate documents, show that Kiær and his associates were well informed, and did convey their opinions on different matters to the management – they were more than passive investors just receiving information.<sup>29</sup>

<sup>25</sup>Petrowskoje's annual report and Dubrowka's constitutive meeting (1912, November 23). AKCA. In 1912, 1 Rbs equalled Nkr 2, in the summer of 1916 it had fallen to Nkr 1, and in 1917 it was only worth Nkr 0.67. In terms of the British Pound, I only have the official rates for 1916: £1 = Rbs. 14.95, and 1917: £1 = Rbs. 30.00. Thus it is reasonable to assume that the exchange rate in 1912 was £1 = 8 RBS. (Gurushina, 1998, p. 195).

<sup>26</sup>Petrowskoje's annual report and Dubrowka's constitutive meeting (1912, November 23). AKCA.

<sup>27</sup>Kiær, E. C. (1912, October 26). [Letter to Den Norske Creditbank (DnC)]. EKPAR.

<sup>28</sup>Kiær, E. C. (1909, October 8). [Letter to Halfdan Bergh]. EKPA.

<sup>29</sup>Directors' meeting Dubrowka (1913, June 2). RA

Moreover, the fact that the Norwegians' main contribution initially was capital does not imply that they were not committed or had a short-term perspective on the business in Russia. When evaluating the sources on the Kiær-Solberg family's motives for Dubrowka, it is important to keep in mind that statements concerning the venture should also be seen as an attempt to legitimize it, which is a crucial aspect of entrepreneurial action (Wadhvani & Lubinski, 2017). In promoting the project to financial stakeholders – banks and other investors – Kiær stressed the soundness of the business case, and not the long-term visions and ambitions that he and his family held for Russia. Still, Elias Kiær's son and nephew both studied Russian, which is an indication of the family's ambitions in Russia.

Gullichsen and Sohlberg appointed managers from different companies in Kotka. Among them was B. von Hartmann, who was hired as operating manager at Dubrowka. An important reason for this strategy was that most of them had been in Russia several times before and also spoke Russian. Moreover, they had some experience with pulp and paper from Kotka.

The equipment for the sawmill was bought in Russia and Finland, while the paper machine was bought from the American company Pusey & Jones Co. It had a capacity of 8,000 tons of paper per year; thus it was not a small enterprise. The steam engine and the pulp mill were bought in Finland; which had lower tariffs than other countries. Finally, the generator was imported from Germany. The machinery was installed and put together based on the competence and skills developed in Kotka. Thus, the operating control resided with the Finnish management, while the Norwegian investors had supervisory control.

### The Norwegian company 1913–1916

The directors were optimistic at Dubrowka's first General Assembly in November 1912 and proclaimed that the paper machine would be up and running in October 1913.<sup>30</sup> However, Dubrowka rapidly ran into problems, and in June 1913, Gullichsen and Sohlberg had to summon an additional annual meeting. They presented a depressing report to the shareholders: the budgets were overdrawn and essential supplies were delayed.<sup>31</sup> The problems related to transportation of lumber from Petrowskoje had not been solved. The Finnish workers and middle-management complained that the housing conditions and food were unbearable. Moreover, the directorate criticised the Finnish management severely, and the Russian personnel was described as 'unsuited as a steady work-force. Unreliable and lazy.'<sup>32</sup> A general observation from the sources, letters and annual reports is that there is considerable information about technical issues, logistics and market development, but little information and reflection regarding the Russian society and the Russian workers.

Despite the problems, the shareholders agreed to invest more money in the infrastructure, in building better houses and having the company produce food for the employees. Thus, the need for capital increased. A loan of NOK 500,000 (about RBS 1 million at the time) was obtained from Akers Sparebank, which also required a personal guarantee from the directors. And the company had to call in more of the share capital than originally planned.<sup>33</sup> In October, Elias Kiær was able to increase Dubrowka's loan at DnC by NOK 1 million, with security from Dubrowka, yet the shareholders had to confer personal guarantees again.<sup>34</sup>

Two months after the shareholder meeting, in August 1913, Gullichsen wrote to Kiær to say that 'at Dubrowka a reorganisation has to take place'.<sup>35</sup> According to Gullichsen, several of the Finnish managers lacked motivation and dedication. They were eventually sacked. Gullichsen had a strong belief in Elias Kiær and asked him to come to Dubrowka for a couple of months, 'then things would

<sup>30</sup>Petrowskoje's annual report and Dubrowka's constitutive meeting (1912, November 23). AKCA.

<sup>31</sup>The Directorate's report to Dubrowka's additional annual meeting in Kristiania (1913 June 30), RA.

<sup>32</sup>The Directorate's report to Dubrowka's additional annual meeting in Kristiania (1913 June 30), RA.

<sup>33</sup>The Directorate's report to Dubrowka's additional annual meeting in Kristiania (1913 June 30), RA.

<sup>34</sup>Kiær, E. C. (1913, October 20). [Letter to Den Norske Creditbank (DnC)]. EKPAR.

<sup>35</sup>Gullichsen, A. (1913, August 28). [Letter to Elias C. Kiær]. AKCA, 'Utenlandske kopibøker 1910, M 175'.

start to happen'.<sup>36</sup> This proposition shows that Gullichsen knew that Kiær could bring much more to the table than capital. Kiær declined the invitation, as he had many other projects and enterprises to attend to. More importantly, he had his mind set on younger representatives from his family and network.

Thorry Kiær, Elias Kiær's nephew, replaced Hartman as managing director at Dubrowka in 1913. He was 22 at the time.<sup>37</sup> Halvor Egeberg, son of Einar W. Egeberg, also became a part of Dubrowka's management.<sup>38</sup> Both had learnt Russian before they went over. These appointments illustrate significant features of *family-network* capitalism. Namely that younger family members were often granted positions in the day-to-day management of one of the family's companies, while the older generation were directors. The family maintained control of the company on both levels. Moreover, the agency problem was avoided, or at least reduced, by internalising it within the family network. Moreover, it was an opportunity for the younger generation to gain experience from the 'real world', before one day they replaced the older generation as heads of the family company and business. In addition, it was a way of monitoring and selecting the most qualified of the younger generation for future prospects.

Later, Kristoffer Mørch replaced the former Finnish manager of the paper factory and became Technical Director of Dubrowka in 1914 (Mørch, 1958). He belonged to a group of Norwegian engineers who worked for several companies at the time, almost as freelancers or consultants. Mørch, however, developed strong ties to the Kiær-Solberg family and played a crucial technological role in their network. Thus, while lending his skills to several companies at the time, Mørch can be seen as the 'Technical Director' for the Kiær-Solberg family (Mørch, 1958; Sogner & Christensen, 2001).

In his memoirs Mørch described his arrival at Dubrowka and said it was apparent that few people had a sufficient understanding of how to make paper (Mørch, 1958). He was also working as a consultant for Enso-Gutzeit in Finland, assisting with its paper production. Based on this experience, he recruited people with knowledge and competence from paper production in Finland (Christensen, 2001, p. 123). Norwegian colleagues accompanied Thorry Kiær and Mørch to Dubrowka, and Mørch brought along assistants from other firms in Norway. Moreover, with the appointment of Mørch, the ambitions for the sawmill were reduced to just covering the costs. In the annual report from 1914, it was stated, that 'greater hopes than this have never really been set'.<sup>39</sup>

The Directorate was pleased with Thorry Kiær's leadership and stated that after his arrival, the necessary work and preparation was finished on time, and delays were due to the former management.<sup>40</sup> In August 1914, Elias Kiær wrote to a good friend, and said that the development at Dubrowka was beyond all expectations: 'we are making great paper and selling everything'.<sup>41</sup> Dubrowka's best years were after Thorry Kiær's and Mørch's arrival. They decided to install another paper machine, based on the assumption that the Russian paper market would boom after the First World War, and that Dubrowka could fill the void after the German paper producers were ruled out of business.

After the outbreak of war, it was impossible to export lumber through the Baltic Sea, so the sawmill was shut down. This created a problem since the paper production was in need of firewood. Thus, Halvor Egeberg had to buy firewood from different auctions and locations, which implied travelling around with substantial amounts of cash.<sup>42</sup> Still, the war created a window of opportunity for paper production, since the German paper producers were ruled out and prices rose.<sup>43</sup> Thus,

<sup>36</sup>Gullichsen, A. (1913, August 28). [Letter to Elias C. Kiær]. AKCA, 'Utenlandske kopibøker 1910, M 175'.

<sup>37</sup>The Directorate's report to Dubrowka's additional annual meeting in Kristiania (1914 June 30), AKCA.

<sup>38</sup>Protocol from meeting of the Norwegian shareholders in Dubrowka, in Oslo (1915 January 15) AKCA.

<sup>39</sup>And. H. Kiærs arkiv på Elverum, innenlandske kopibøker, Direktionens beretning 30. June 1914

<sup>40</sup>Dubrowka's Directorate's report for the extraordinary shareholder meeting in June 1914, (1914, June 14). AKCA.

<sup>41</sup>Kiær, E. C. (1914, August 9). [Letter to Carl Gutzeit]. EKPA.

<sup>42</sup>Kiær, E. C. (1914, December 2). [Letter to Thorry Kiær]. EKPAR.

<sup>43</sup>Dubrowka's Directorate's report (1915 January 12). AKCA, 'And. H. Kiærs & Cos innenlandske kopibøker, 1910, M 108'.

Dubrowka benefited from the war; 1915 was the first year with profits, at RBS 97,256, which rose to RBS 280,956 in 1916.

The profits were mainly derived from delivering paper to newspapers in Moscow and St. Petersburg.<sup>44</sup> Besides installing a new paper machine, Dubrowka started to produce wooden containers for the Russian army.<sup>45</sup> This was a way of utilising the lumber and of maintaining good relations with the Russian armed forces. The Kiær-Solberg family had experience in this field. And. H. Kiær & Co ran a wooden container business back home in Fredrikstad and had established a joint venture with Gutzeit in Kotka that also produced wooden containers. Thus, despite or perhaps because of the war, Dubrowka was on the road to industrial success. Furthermore, its directors looked with great confidence on the opportunities the post-war period would bring.

The appointment of these three Norwegians illustrates some of the advantages that this family-network system embodied. First, the loyalty and trust it provided (Church, 1993, p. 19), which ‘reduces transaction costs’ (Casson, 1999, p. 13). A case in point being Halvor Egeberg travelling around Western Russia with a considerable amount of money to buy firewood. Trust is particularly important with high risk, instability, uncertainty and poor jurisdiction, which was the case in Russia even before the First World War (Colli & Rose, 2008; James, 2009). Second, a family network provides flexibility; when Dubrowka was in trouble, Elias Kiær could allocate the human resources within his network. Third, motivation is often stronger in a family-network setting (Berghoff, 2006; Colli & Rose, 2008, p. 209; Pollak, 1985). The Finnish management and Russian workers allegedly lacked motivation. Thorry Kiær, on the other hand, was full of devotion and ambition. He was eager to convince the older generation that he was worthy of a prominent position in the family business.

In addition to these appointments, Elias Kiær and the other Norwegian directors took a firmer grip of the enterprise. The increasing number of letters concerning Dubrowka after 1913 clearly suggests that Elias Kiær and Egeberg took a more controlling role.<sup>46</sup> As an example, Kiær visited Dubrowka in March 1914 ‘to go through the affair’, so he could inform the General Assembly thoroughly.<sup>47</sup> Egeberg replaced Colonel Sohlberg as chairman of the Directorate when the latter became ill in 1913. Moreover, Elias Kiær had a privileged relation and channel of information to both Thorry Kiær and Mørch. Thus, after 1913, it is fair to characterise Dubrowka as a *Norwegian* free-standing company.

### From war optimism to nationalisation

Dubrowka tried to raise another RBS 2 million through a share emission in Norway in 1914. RBS 1.4 million was raised by August 1914, which was not too bad, given that the First World War had started during the summer. At the end of 1914, Dubrowka raised capital through a private placement. The Kiær-Solberg Group and Egeberg bought shares for about RBS 750.000 in 1914 and more or less doubled their number of shares.<sup>48</sup> Dubrowka needed more capital, and an emission was not feasible, so instead a bond issuance was put out, where each shareholder was asked to ‘subscribe for the same amount that he previously has in shares’.<sup>49</sup> The company raised NOK 2.8 million this way.

Elias Kiær, along with other Norwegians, invested in several projects in Russia during the war. One important investor and industrialist was Fredrik Prytz who had started two lumber companies,

<sup>44</sup>St. Petersburg became Petrograd in 1914, because St. Petersburg was a German name.

<sup>45</sup>Dubrowka’s Directorate’s report (1915 January 12). AKCA, ‘And. H. Kiærs & Cos innenlandske kopibøker, 1910, M 108’.

<sup>46</sup>In Elias Kiær’s copybook of letters sent from him to Russia (EKPAR), there are 80 letters from September 1911 until 1914, while there are 120 copies in 1914 alone. Some letters concerning Russia were copied in the regular copybook, and these show the same pattern.

<sup>47</sup>Kiær, E. C. (1914, March 12). [Letter to Colonel Sohlberg]. EKPAR.

<sup>48</sup>Dubrowka’s Directorate’s report (1915, January 12). AKCA, ‘And. H. Kiærs & Cos innenlandske kopibøker, 1910, M 108’.

<sup>49</sup>Dubrowka’s Directorate’s report (1915, January 12). AKCA, ‘And. H. Kiærs & Cos innenlandske kopibøker, 1910, M 108’.

Prytz & Co. and Onega, that were centred around Archangel and the White Sea. Elias Kiær was a director and shareholder in Prytz & Co., and in September 1916 he bought shares worth RBS 50,000 in Onega. In 1916, Onega and Prytz & Co. were merged and named the Russian Forest Industry. In 1917, the Russian Forest Industry issued an emission in Norway and attracted NOK 4 million from companies and private investors, among them Elias Kiær (Christensen, 2001, p. 133; Svendsen, 1973, p. 127). This might appear strange, considering that Russia was a country at war. The increased amount of Norwegian FDI in Russia during the First World War can be ascribed to four factors.

First, as a neutral country, Norwegian shipping and business experienced a ‘war-boom’ that was ‘hysterical’ (Knutson, 2007, p. 139; Mørch, 1958). Thus, there was an affluence of wealth among industrialists and investors. Second, due to the war, the value of the ruble fell like a stone and Russian assets became very cheap.<sup>50</sup> When Elias Kiær invested in Onega, he explained it by the ‘extraordinary low exchange rate of the Ruble at the time being’.<sup>51</sup> Adding to this, Dubrowka’s profits were in rubles and since the exchange rate was so low, the shareholders did not want to exchange them for Norwegian Kroners and thought it better to invest them in Russia. Finally, Elias Kiær and most other observers were confident that Russia would continue its modernisation and industrialisation after the war. A token of this conviction was that P. C. Solberg took over Colonel Sohlberg’s shares when he died in 1916, and with this he assumed Sohlberg’s personal guarantees to the bank. When having trouble repaying this in 1920, Solberg told Elias Kiær that the transaction was voluntary from his side.<sup>52</sup>

According to Mørch’s memoirs, the management at Dubrowka did not share the same optimism, especially after the summer of 1916 (1958). Russia lost several battles to the Germans in the war, and with it important industrialised areas in Lithuania and Poland. Furthermore, the harvest failed and contributed to starvation. Mørch writes that he and Thorry Kiær feared for Dubrowka’s future, and tried to sell the company. According to Mørch’s memoirs, they did get a decent offer from one of the newspapers in St. Petersburg (Christensen, 2001; Mørch, 1958, p. 130). It is important to bear in mind that Mørch wrote his memoirs in the 1950s so his reminiscences may not be infallible. Moreover, in 1950 the Soviet Union was firmly established, whereas before the autumn of 1917 there were few signs of a Bolshevik revolution. Mørch claims that Gullichsen was fanatically against the sale of Dubrowka. Elias Kiær was allegedly more relaxed, reasoning that ‘the war boom had made us so financially strong, so he would rather run the risk, than give up’ (Mørch, 1958).

Elias Kiær, Fredrik Prytz and other Norwegians were eager to merge their enterprises in Russia.<sup>53</sup> This was partly to reduce the risk related to the war and the revolutionary state Russia was in. However, an important element was to position oneself for the post-war era. Hence the efforts to create a large forest enterprise in Russia were sincere. In this perspective, the smaller FSCs are best interpreted as bridgeheads for a future stronghold in Russia.

After the revolution in March 1917 (February according to the Russian calendar), the optimism was even greater. In the international press, the ‘March revolution’ was welcomed as liberal and democratic, and it was presumed that it would put Russia in line with other West European democracies (Goldin, 1996, pp. 40–41). At Dubrowka, Thorry Kiær encouraged the workers to establish unions, which had been forbidden under the Czar’s regime (Mørch, 1958).<sup>54</sup> Thus, the revolution was perceived as progressive in many ways.

However, after the Bolshevik revolution in November (October in Russia), Dubrowka ran into severe difficulties. The property at Petrowskoje was taken over by the Bolsheviks at once, and

<sup>50</sup>At the beginning of the war, Rbs 1 equalled Nkr 2, in the summer of 1916 it had fallen to Nkr 1, and in 1917 Rbs 1 = Nkr 0.67. Kiær, E. C. (1916, June 23). [Letter to Alexander Gullichsen]. EKPA; Dubrowka’s annual report 1917. RA.

<sup>51</sup>Kiær, E. C. (1916, September 21). [Letter to Nils Pedersen]. EKPA

<sup>52</sup>Solberg, P. C. (1920, December 24). [Letter to Elias Kiær]. EKPA.

<sup>53</sup>Kiær, E. C. (1916, January 26). [Letter to Alexander Gullichsen, Einar W. Egeberg and N. Y. Fearnley]. EKPA

<sup>54</sup>Petrowskoje’s annual report and Dubrowka’s constitutive meeting (1912, November 23). AKCA.

Dubrowka's management had to comply with a workers' council, that was under direct orders from the Bolshevik party, before taking any decisions.<sup>55</sup> At the same time, it was impossible to get hold of necessary equipment and resources for the paper production.<sup>56</sup> One year later, on November 2, 1918, the company was nationalised by the Bolsheviks and is said to have been named, 'Comrade Lenin's factory' (Nilsen, 1995, p. 2).

There were still hopes of getting the company back and doing business in Russia; both Elias and Thorry Kiær were confident that the Bolshevik regime would be overthrown after the civil war which followed the revolution (Christensen, 2001, p. 149). Prytz went further than the others – in a letter to the Norwegian Ministry of Foreign Affairs in November 1918, he recommended that Norwegians emigrate to Russia, where 'they would meet people, which both in culture and in abilities, will be completely inferior to them', so the Norwegians could keep their language and nationality. This was different from the emigration to America, where thousands of Norwegian were assimilated and lost.<sup>57</sup> As late as 1919, Prytz was urging Norwegians to secure a firm foothold in Russia. He argued that Norway should seize the opportunity while Germany was down. 'At the moment', Prytz said 'there are no countries that have such a favourable position to replace Germany's position in Russia, as the Scandinavian countries'.<sup>58</sup>

The Norwegian investors followed the civil war in Russia eagerly and hoped that the allied intervention would help beat the communists. But during the summer of 1919, it became clear that that the Bolsheviks would win, and that the Russian adventure was over.

At the time of the nationalisation, the shareholders allegedly estimated the value of Dubrowka's property and installations at 35 million NOK (Nilsen, 1995). The shareholders probably did not hold back in this estimation, but it is clear that the value was substantial. To compare, Knut Sogner calculated the Kiær-Solberg-family's total assets in 1918 to be worth NOK 60 million (Sogner & Christensen, 2001, p. 9). Converted to present value by using the consumer price index, NOK 35 million equals 868 million NOK.<sup>59</sup> This does not give the right impression of the value and magnitude of Dubrowka. Another perspective is that NOK 35 million amounted to 0.7 per cent of Norwegian GDP in 1918, and 0.7 per cent of Norwegian mainland GDP in 2017 is almost NOK 20 billion.<sup>60</sup> One thing was that the directors lost what they had invested in shares and bonds, but they also had to pay for the bank loans they had guaranteed. There was a discussion in the Kiær-Solberg family over whether the directors should cover the losses personally, or whether they acted on behalf of the family, so the family should cover the losses. This strained the relations in the Kiær-Solberg family. Elias Kiær insisted on covering his guarantee personally, which amounted to 1.5 million NOK (Sogner & Christensen, 2001, p. 232). The losses from Dubrowka contributed heavily to the Kiær-Solberg family's financial downfall.

### Free-standing companies and family-network capitalism

The emergence of the FSC concept was important for measuring FDI, and reinterpreting the global economy before 1914. Without the concept, Dubrowka would probably have been perceived as an example of Norwegian capital export. Still, the measurement of FDI is uncertain, as it depends on a vague concept like control. It 'is a potentially ambiguous concept because of the various stages through which the exercise of control can pass' (Casson, 1998, pp. 102–103). Dubrowka is a case in point. The location of control of Dubrowka is pivotal for deciding whether the company was a

<sup>55</sup>Snellman, B. (1918, April 7). [Letter to Thorry Kiær]. EKPA.

<sup>56</sup>Snellman, B. (1918, April 7). [Letter to Thorry Kiær]. EKPA.

<sup>57</sup>Fredrik Prytz (1918, November 9). [Letter to the Norwegian Ministry of Foreign Affairs]. EKPA.

<sup>58</sup>Russian Forest Industry (1919, January 14). [Letter to Elias Kiær]. EKPA.

<sup>59</sup>Statistics Norway 'price calculator', 'NOK 35.000.000 in 1918 equalled NOK 868.000.000,00 in November 2019'. <https://www.ssb.no/priser-og-prisindekser/statistikker/kpi/tilleggsinformasjon/om-priskalkulatoren>

<sup>60</sup>GDP in 1918 (current prices) was 5,262 million NOK according to Norges bank (The central bank of Norway) <https://www.norges-bank.no/en/topics/Statistics/Historical-monetary-statistics/Gross-domestic-product/>. (Ministry of Finance, 2018).



*direct* investment, and thus an FSC, but also whether Norway or Finland should be considered as the home-nation. This is important for statistical matters, and it illustrates how complex the globalisation was at the time, and how difficult it is to measure it quantitatively. Still, the questions regarding Dubrowka's status, as FDI or FSC, are a matter of definition, and pursuing the question to a conclusion might seem like pedantic hair splitting. There are other aspects of the FSCs which are more interesting.

Simon Mollan has launched a serious critique of the FSC as an analytical concept. His criticism is sound in as much as the FSCs are viewed as second rate multinationals, because they do not measure up to the traditional American multinational. The international companies of the first global economy must be evaluated on their own terms. His other arguments, however, are not too convincing. Most analytical concepts would fail to meet Mollan's fastidious demands. *FDI* and *multinational* are analytical concepts, neither has the 'ability to explain change over time' (Mollan, 2018, p. 157). Moreover, in denouncing FSCs as a 'zombie' concept (2018), Mollan fails to recognise the importance of ownership advantages related to FSCs. This is important because it challenges traditional theories on the origins and internalisation of ownership advantages, and also because it helps us understand why many of the companies were short-lived and/or the ownership was transferred to the host country. The Norwegian FSCs in general, and Dubrowka in particular, shed light on this.

During its first years, Dubrowka shared many traits with the traditional British FSCs: The main contribution from the owners, headed by Elias Kiær, was capital (Hennart, 1998); and an expatriate, Gullichsen, controlled the company (Casson, 1994; Lopes et al., 2019; Wilkins, 1988, 1998). Then again, Casson's assertion that shareholders were not in control – that 'de facto control resides with the managers on-site' (1998, p. 103), is stretching it too far for Dubrowka. Gullichsen was in control but the Norwegian owners brought more to the table than capital; they had extensive knowledge of how to operate in the forest industry. Later development showed that the owners could activate control when necessary. Even if Gullichsen was independent, he was also a part of family-network capitalism and under its influence. What is more, being part of this structure, he became an important channel for Norwegian ownership advantages which underpinned the investment in Russia. This was even more apparent with the appointment of the young Norwegians, Kiær, Egeberg and Mørch, in 1913. It illustrates how ownership advantages can be internalised in a non-corporate structure, namely the family network. Thus, the family network is one answer to the problem that the FSCs created for internalisation theory.

It is not obvious whether the British FSCs should be thought of as 'prototypes of British personal capitalism' (Chandler, Amatori, & Hikino, 1997, p. 183). FSCs can be seen as instances of managerial capitalism, in line with Casson's assertion that managers are in control and with Leslie Hannah who claims that Britain had dispersed ownership and 'higher levels of divorce of shareholding owners from management controllers' (2007, p. 404). Managerial capitalism had not yet penetrated Norway, Norwegian family-network capitalism placed the 'owners in the center, the managers had no other options but to cooperate' (Sogner, 2003, p. 26). Nevertheless, there was a general tendency in most countries to move towards managerial capitalism, in the sense that managers attained more control, and the owners lost control (Chandler, 1984; Colli, 2016). One reason being that many industries became more capital and technology intensive which made it harder for owners to call the shots.

A move towards managerial capitalism for traditional multinationals would have strengthened their headquarters, and maybe even their hold over subsidiaries. Things were different for the FSCs. If the managers took control and the owners lost control, it would change the character of the company. It could cease to be a case of FDI, and could be a step towards nationalisation or naturalisation of the company. The nationalisation of three large foreign-owned Norwegian companies – Norsk Hydro, Kelner Partington (Borregaard) and Hafslund – was preceded by such a process. Their Norwegian managers gained more autonomy and control in accordance with managerial capitalism (Bergh & Lange, 1989; Christensen, 2003, 2018; Sogner, 2003).

Moreover, such a process will often reflect the fact that the owners' relative ownership advantages shrink over time. As it is difficult for FSCs to maintain and nurture ownership advantages,

they are almost destined to decline, and/or be transferred to the host-nations. This leads to a question that was asked of British FSCs in the United States: ‘Why should Americans pay for a board of directors that generated only cost and no benefit to the ongoing business?’ (Wilkins, 1988, p. 276).

Another traditional mechanism for FSCs was that the manager on site, often an expatriate, became naturalised. These three mechanisms, managerial revolution, transfer of ownership advantages and naturalisation, often went hand in hand, as for Gutzeit and Gullichsen. Gutzeit went from personal to managerial capitalism, with Gullichsen at the helm. He became a more or less naturalised Finn. And at the end of Gullichsen’s life and tenure, the Norwegian owners had few superior ownership advantages to back up their control over Gutzeit. This was the background to the Finnish state buying Gutzeit from the Norwegian owners in 1918 (Jensen-Eriksen, 2015).

We do not know if this would have happened to Dubrowka, as the Russian Revolution aborted Dubrowka’s life-cycle. We can only speculate as to whether the motives for hiring managers from the Norwegian family-network capitalism were to preclude a similar process. Choosing a manager from the family, with a broader set of motives and stronger ties to the owners, would be a precaution to the risk that managers might become naturalised, or ‘assimilated’ as Prytz put it, in Russia.

Many FSCs were short-lived, and sometimes this was the intention, as with the “build-operate-transfer’ system’ (Casson, 1994, p. 102). In this sense, Dubrowka was more like a traditional family company – Elias Kiær and the others had a long-term horizon regarding the project. Moreover, it seems like Dubrowka was motivated by more than a financial return, in line with socioemotional wealth theory (Berrone et al., 2012; Wu, 2018). The desire to maintain family control and influence was strong. Also the idea that Russia held a promising future was important. One might argue that in the long run, this is related to the financial return. Still, it seems evident that key members of the family network invested both emotions and prestige in Russia, for instance by studying the language. The most ardent owners were convinced that Russia would eventually flourish and prosper (Christensen, 2001; Mørch, 1958). Hence, if Dubrowka succeeded, Thorry Kiær and Halvor Egeberg were likely to be given prominent roles in the future businesses in Russia. Consequently, they had good reason to be patient and persistent when confronted with problems and hardship in Russia. It is not difficult to imagine that a hired manager, with no pride or honour attached to the project, might have lost motivation and become homesick when problems piled up.

In as much as the FSCs and family firms have contrasting features, Dubrowka shared more similarities with a family firm. There is one notable exception to this pattern, however: family businesses are more prone to wealth preservation, prudence and parsimony, than to taking high risks (Colli, 2016, p. 61; Hiebl, 2014; Mishra & McConaughy, 1999; Wu, 2018). This was not the case for Dubrowka. The largest owners were rather careless with the money they invested in Russia and Dubrowka. This discrepancy is interesting. It could simply be that the directors were speculative. It could also be understood within the framework of socioemotional wealth theory – that the directors became so enticed and seduced by the Russian venture and the future prospects in the country, that rational calculations were pushed into the background. Thus, maybe the emotions, coupled with family bonds, obstructed a more rational financial approach to the enterprise. And who knows, without the Russian Revolution, Dubrowka might have been a valuable bridgehead for further industrial expansion in Russia for the Norwegian family-network capitalists.

## Archives and sources

EKPA	Elias Kiær’s Private Archive
EKPAR	Elias Kiær’s Private Archive about Russia
RA	The Norwegian State archive/Riksarkivet; Private arkiv nr. 344 A/S Dubrowka, Box Number 8
AKCA	The archive at the Norwegian Forest Museum at Elverum, And. H. Kiær & Co’s archive

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