Avoiding "Negligence and Profusion": The Ownership and Organization of Anglo–Indian Trading Firms, 1813–1870

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> The directors of such [joint-stock] companies, however, being the managers of other people's money than their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own … negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company.[1]

The rescinding of the East India Company's monopoly on trade between Britain and India in 1813 opened new opportunities for British trading firms. The volume and value of the Anglo–Indian trade grew and the range of products imported and exported became progressively more varied, enabling increased opportunities for specialization and integration. The trading firms expanded their activities and integrated into manufacturing, transportation, and construction of infrastructure, resulting in many becoming highly diversified organizations, particularly after 1850.

In the period from 1813 to 1870, different types of firms emerged to undertake the trade. Entrepreneurs used a range of ownership forms, including partnership, joint-stock, and hybrid models. There was also

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1. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Oxford: Oxford University Press [1787] 1998), 741.

wide variation in organizational structures and governance mechanisms employed, ranging from integrated hierarchies to networks of firms and partners. Novel forms of firm organization emerged, such as the "managing agency," which saw trading firms function as both investors and managers of manufacturing, mining, and plantation operations.

The selection of ownership form became a significant choice for entrepreneurs in the mid-nineteenth century after changes in legislation substantially lowered the costs of incorporation.[2] Entrepreneurs had to weigh the pros and cons of different ownership and organizational forms that would best enable them to carry out their various activities. They experimented with different forms to better maximize opportunities and overcome the constraints they faced as the economic and business environment developed in both Britain and India.

The use of a range of firm types in this period opens a number of questions that this dissertation explores:

1. How did the ownership, organizational structures, and governance arrangements of Anglo–Indian trading firms change between 1813 and 1870, and did one or another form proliferate?
2. Why were certain forms of ownership and organization preferred, and which factors determined an entrepreneur's choice of form?
3. Did the choice of ownership and governance affect the performance of the firms?

Authors, including Chapman and Jones, have analyzed changes in these firms over this period.[3] They described an evolutionary transformation, from small partnerships conducting a wide range of trading activities to diversified business groups known as managing agents. The key factors that affected the decisions regarding ownership and organization were identified as access to credit, capital, and managerial talent, while the capacity to diversify risk yet allow the retention of control and capacity to extract profits by small numbers of owners was also important. The managing agents' capacity to solve these

2. In Britain, the passage of the Companies Act of 1844, the Limited Liability Act of 1855, and the Joint-Stock Companies Act of 1856 all lowered the costs of incorporation. In India, similar acts were passed in 1850 and 1857.

3. Stanley Chapman, *Merchant Enterprise in Britain: From the Industrial Revolution to World War I* (Cambridge: Cambridge University Press, 2004); Geoffrey Jones, *Merchants to Multinationals: British Trading Companies in the 19th and 20th Centuries* (Oxford: Oxford University Press, 2000).

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challenges saw them come to dominate the organization of Indian industry by the beginning of the twentieth century.[4]

Using an analytical framework drawn from the economic theory of the firm literature, the dissertation reassesses the narrative of the Anglo–Indian trading firms. Drawing on transaction and agency cost theory, a different—although potentially complementary—reading of the development of the firms is proposed. The dissertation analyzes how entrepreneurs experimented with different forms of business organization that allowed them to lower the costs of transacting for credit, capital, and information while also lowering the costs of controlling agents separated by distance and time.

This analysis contributes to the debates in business and economic history focused on the role played by business ownership and organizational forms on the performance of firms, industries, and economies. The importance of hierarchical managerial structures and joint-stock ownership in enabling an unprecedented expansion of the scale of business in the late nineteenth century is widely debated, and a growing literature has looked at the role played by different forms of business organization, such as the partnership and cooperative, in enabling economic growth.[5] This dissertation demonstrates the important role played by hybrid forms of firm ownership in mitigating the "negligence and profusion" of joint-stock firms predicted by Adam Smith while enabling increasing levels of capital investment.

Methodology and Sources

To examine these questions, the dissertation categorizes the trading firms typologically and chronologically, identifying four distinct firm types. First, the agency houses became active as the monopoly was rescinded. Second, the trading firms that emerged after a financial crisis in Calcutta in the 1830s led to the failure of the principal agency houses. Third, the managing agents became prominent from the 1850s onward. All these firms are all organized as partnerships prior to 1870. The final firms to be analyzed are those that integrated

4. Maria Misra, *Business, Race, and Politics in British India, c. 1850–1960* (Oxford: Clarendon, 1999), 4, estimated that 75 percent of all Indian industrial capital was controlled by managing agents in the early twentieth century.

5. Alfred Chandler, *The Visible Hand: Managerial Revolution in American Business* (Cambridge, MA: Harvard University Press, 1977); Naomi R. Lamoreaux, Daniel M. G. Raff, and Peter Temin, "Beyond Markets and Hierarchies: Towards a New Synthesis of American Business History," *American Historical Review* 108, no. 2 (2003): 404–433.

production and marketing processes. These were increasingly organized as joint-stock firms, incorporated in Calcutta and London.[6]

Case studies of the four firm types were selected. John Palmer and Co., founded before 1813, is investigated as an example of the agency house. Gisborne and Co., founded in 1830, was a trading firm that emerged after the collapse of the agency houses. Ogilvy, Gillanders and Co. was established in 1826 as a trading firm, but it evolved into a managing agency after 1840. The Assam Company was incorporated in 1839 for the purpose of producing and marketing tea.[7]

The case studies are analyzed using a framework influenced by the Analytic Narratives approach proposed by Bates and company.[8] This method examines historical phenomena using formal arguments drawn from social science theory. A narrative, constructed from the case studies, outlines actors' decisions, the context in which they were made, and their outcomes. In this dissertation, the choice of business form and the proliferation or failure of certain business types are analyzed through transaction and agency cost theory.

The theory provides propositions with which to analyze the narrative and examine the extent to which the theory explains these outcomes. The nature of the transactions, particularly the need to avoid threats of holdup, incentivized firms to use different governance mechanisms, from buying through the market, to contractual partnerships, to being fully internalized within the firm. Similarly, different agency costs, such as opportunism, minority oppression, and untimely dissolution, encouraged firms to use different business organizations, including the joint-stock or partnership, to mitigate these costs.[9]

The dissertation proposes that changes in the economic environment altered the transactions undertaken by the firms and incentivized the adoption of different forms of ownership. In turn, the internal organization of the firms was adapted to mitigate costs of agency caused by changes in ownership. If entrepreneurs had to deal with one dominant cost, then a single business form that best mitigated it would

6. These firms bear resemblance to the Free-Standing Companies analyzed by Mira Wilkins and Harn Schröter eds., *The Free-Standing Company in the World Economy, 1830 to 1996* (Oxford: Oxford University Press, 1998).

7. John Palmer and Co., Bodleian Library, Oxford; Gisborne and Co., Baring Archive, London; Ogilvy, Gillanders and Co., Flintshire Records Office, Wales; The Assam Company, London Metropolitan Archives.

8. Robert H. Bates, Avner Greif, Margaret Levi, and Jean-Laurent Rosenthal, *Analytic Narratives* (Princeton, NJ: Princeton University Press, 1998).

9. Oliver Williamson, *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting* (New York: Free Press, Simon and Schuster, 1985). Naomi Lamoreaux and Jean-Laurent Rosenthal, "Contractual Trade-offs and SMEs' Choice of Organizational Form: A View from U.S. and French History, 1830–2000," NBER Working Paper 12455 (2006).

come to dominate. However, when multiple costs were present, entrepreneurs had to address various trade-offs and find a form that balanced competing pressures. This opens the question of whether one form could adequately address multiple costs effectively.

The context in which the entrepreneurs made decisions is explored through their activities in two major export products: indigo and tea. India became the world's largest exporter of indigo in the early nineteenth century and many trading firms had some involvement in the trade. Likewise, tea production expanded after 1840, and a tea boom in the 1860s saw many new entrants rush into the market. A detailed study of the products' production and marketing helps to identify the opportunities and constraints that entrepreneurs faced in these markets.[10]

To construct the case studies and context, the dissertation uses a range of primary sources. In particular, correspondence, journals, and account books from each of the firms are fruitful sources for understanding the actions of the actors. Commercial registers provide a range of details, including lists of different types of firms operating in Calcutta, the names of the partners and managers working for them, and other details such as nominal capital for joint-stock companies.[11] The Baring Archive contains a significant collection of nineteenth-century business statistics collated by the firm. It contains extensive data relating to prices and production for indigo and tea.[12] Finally, various British parliamentary select committee reports contain interviews and statistics related to the development of trade and industry in Asia.[13]

An Evolving Choice of Business Forms

The first part of the dissertation deals with the years between 1813 and 1850. In this period, the trade was slow to take off and volatile, punctuated by credit crises in Calcutta in the early 1830s and in 1847. In part, this was due to the thin nature of the local credit market in Calcutta, with few banks or lenders attuned to the needs of the

10. This analysis is undertaken through an adapted form of commodity chain analysis as proposed by Terrence K. Hopkins and Immanuel Wallerstein, "Commodity Chains in the World Economy," *Review* 10, no. 1 (1986): 157–170.

11. British Library (BL) OIR 954.14 ST 1216 CH, Bengal Annual Register and Directory series.

12. The Baring Archive, HC2 Statistics of General Trade series.

13. Parliamentary inquiries included House of Commons Report (HC) 690 1833 Report from the Parliamentary Select Committee on Manufactures, Commerce, and Shipping; and HC 72-2 1861 East India Indigo Commission, papers related to indigo cultivation in Bengal.

European traders. A detailed analysis of the indigo market shows that unpredictability in the levels of production led to volatility in supply and prices. These conditions encouraged experimentation with different structures of financing and different levels of integration of production. Commodity chain analysis highlights the changing role played by the trading firms, moving from intermediaries and coordinators to generators of credit, capital, and information flows throughout the chain.

From 1813 to the early 1830s, twenty-five to thirty agency houses, all partnerships, were active in Calcutta, among them John Palmer and Co. All of the firm's seven partners resided in Calcutta, from where they conducted commission trade in various products and markets. This was done through a network of trading partners, entities external to the firm, and particularly with a corresponding house in Britain: Cockerell and Co. The firm advanced credit to indigo factory owners and took full and partial ownership of more than forty factories as borrowers defaulted. By the 1820s, the firm required more than £400,000 of annual revolving credit to fund these activities. Cockerell and Co. in London provided roughly 50 percent, and the rest was generated by establishing deposit banking operations in Calcutta.

The agency house structure broke down as a decline in the indigo market and overstretched banking operations led to a liquidity crisis in Calcutta. Palmer and Co. failed in 1830, when the contractual agreement for financing with Cockerell and Co. collapsed. In the aftermath, the number of trading partnerships increased to seventy-three by 1845. There was growing diversity of the size and structure among these firms. Gisborne and Co. specialized in British textiles and purchased goods on their own account rather than on commission. Instead of a network of external trade associates, the firm placed partners in key markets. In the indigo sector, the firm invested in and managed various factories. The firm experimented with different forms of ownership, including multiple-shareholder firms, to better manage the increased capital requirements needed to invest in more integrated systems of indigo production. The annual credit requirements for trade and indigo, of around £200,000, were almost entirely financed through a contractual arrangement with the merchant bank Baring Brothers, in London.

The second part of the dissertation details the rapid changes that occurred in the years between 1850 and 1870. Changes in legislation in the 1850s significantly enhanced the benefits of the joint-stock form and made incorporation easier. The period of study ends in 1870, when the opening of the Suez Canal and completion of the London-to-Calcutta telegraph line dramatically altered the business environment. The value of trade increased rapidly in this period, while the composition also changed as new industries, such as jute and tea, were established. The growth of the tea industry required extensive investment in the underdeveloped region of Assam, in the northeast of India, which encouraged firms to fully integrate the whole chain of production and marketing activities.

After 1850, tendencies toward specialization and experimentation with ownership became more pronounced in industries that had growing levels of capital intensity, such as tea, jute, and railways. The improved capacity of the joint-stock form to generate capital saw 173 incorporated firms operating in Calcutta by 1868, 70 of which were in the tea sector. The Assam Co. raised capital from shareholders in London and Calcutta to fund fixed capital investments in the construction of tea gardens and related infrastructure in Assam. The firm fully integrated production and marketing functions between India and Britain by using a dual-board structure to coordinate activities. However, the separation of principals and agents, metaphysically and physically, offered great scope for opportunism. The Assam Co. faced significant difficulties in establishing control over agents in Assam, with "negligence and profusion" an endemic feature of the operations.

As the number of joint-stock firms increased, so did the number of firms providing managing agency services. Organized as partnerships, through a range of contractual governance mechanisms, the managing agents exerted extensive control over a portfolio of firms. This allowed small numbers of partners to channel investments into a range of industries, reducing their risk and exposure to capital-intensive investments while retaining close control over the firms.

Between 1858 and 1868, the number of managing agents doubled and the firms controlled by agents quadrupled. Over 40 percent of joint-stock firms operated with an agent by 1868. Ogilvy, Gillanders and Co. evolved from a trading partnership specialized in British textiles in the 1830s to managing, promoting, and owning joint-stock firms in industries, including tea, railways, and jute, starting in the 1850s. The firm retained the partnership form, and with more than 12 partners and assistants and 100 Indian administrative staff, it provided a range of managerial services, including the promotion of shares, coordination of finances, and labor, and oversaw operations and reporting to the shareholders of the managed firms.

Table 1 summarizes the experimentation with different forms of ownership across the period. The change between partnership and joint-stock forms was accompanied by shifts between networked and integrated organizational structures. The failure of the agency house model in the 1830s resulted in diversification and experimentation among the trading partnerships, with increasing specialization in activities. After 1850, growing capital needs saw increased efforts

Table 1 Summary of the four case studies

Firm Case Study	Ownership form	Organizational structure	Main activities	Sites of operations	Financing	Key transaction characteristics and contracts	Performance
John Palmer and Co.	Partnership	Network of independent trading firms	Commission trade, banking (deposit, loans and issues), indigo factories owned, not managed	Calcutta, Java	Mix of external and internal	Transactions for finance and indigo managed by contractual partnerships, weak contracts, and governance among partners.	Firm and type fails
Gisborne and Co.	Partnership	Network of partners	Own account trade, indigo factories partially owned and managed	Calcutta, Bombay, Liverpool, London, Bengal/Bihar	Predominantly external	Experiments with integration into indigo, improved contractual partnerships to secure finance.	Profitable, transitional form
Assam Co.	Joint-Stock	Integrated producer and marketer	Tea plantations fully owned and managed, direct sales of tea	Calcutta, London, Assam	Predominantly internal	Fully integrated transactions for tea. Failure of governance to mitigate separation of owners and managers.	Volatile profits, subsumed/ reliant on managing agents
Ogilvy, Gillanders and Co.	Hybrid	Network of partners and managed firms	Own account trade, indigo factories owned and managed, management of firms	Calcutta, Bombay, Liverpool, Manchester, London, Assam	Mix although increasingly external	Partial integration into tea, flexible partnerships, and robust contracts with managed firms.	Profitable and stable, proliferating form

to leverage the benefits of the joint-stock form, but within twenty years the joint-stock firms were increasingly subsumed or under the control of managing agents, which became the dominant form of business organization by 1870.

The Balance between Transaction and Agency Costs

To analyze why certain business forms were preferred, the dissertation draws on transaction and agency cost theories. The transactions for credit, capital, and information on markets and trade products, such as indigo and tea, were the most regular across the period, and the firms used a range of governance and contracting mechanisms to manage them.

The thinness of the financial markets in Calcutta made market mechanisms ineffective for securing credit and capital, leading to the employment of more powerful governance instruments to manage these critical transactions. Palmer and Co. partially internalized these transactions by developing deposit banking functions. The Assam Co. internalized the transactions for capital through incorporation and the issuance of shares. Palmer and Co. and Gisborne and Co. both used partnerships with British-based firms, Cockerell and Co. and Baring, respectively, to access short- and long-term credit. These arrangements reduced the threats of holdup in the supply and the transaction costs incurred through repetitive use of the market.

The increasing use of direct purchases and greater specialization in British textiles in the 1830s required the firms to put more capital at risk in geographically distant markets, changing the characteristics of these transactions. To reduce these risks, Gisborne and Co. and Gillanders and Co. moved away from commission trade and market transactions, internalizing these transactions by placing partners directly in key markets. This improved the flows of market information and lowered threats of opportunism and holdup from external agents.

While transactions for indigo were undertaken by a full-range of governance mechanisms, high volatility in indigo production caused problems in market and resource coordination. The fear of holdup in supply and desire to access better information on market conditions incentivized Palmer and Co. to use partnerships with indigo planters rather than purchase through the market. The capacity to control costs and quality to improve profitability in the indigo production process further encouraged Gisborne and Co. and Gillanders and Co. to undertake full integration. A similar rationale was found in the tea sector, where the high capital investments required to establish

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the gardens increased the asset specificity of the transactions for tea, leading to full integration through the joint-stock form.

The decision to use contractual partnerships or to fully internalize transactions had implications for the internal organization and management of the firms, which affected agency costs. The use of networks to manage activities at a distance and partnerships to access resources required governance that could reduce the threats of opportunistic behavior or minority repression between the parties. As Palmer and Co. and the Assam Co. found, monitoring of the relationships and enforcement of the agreements was complicated and expensive when the parties were separated by distance. In the case of Palmer and Co., the failure to establish a contractually robust partnership for finance was central to the failure of the firm. Meanwhile, Gisborne and Co. and Gillanders and Co. successfully experimented with contracts and incentives to better align the interests of the parties and reduce opportunism.

Internalizing transactions overcame the problems of opportunism between distant partners but raised various other issues. The decision of the Assam Co. to integrate transactions for tea was driven by the need to make larger investments in fixed assets and mitigate the increasing costs of untimely dissolution. However, the growing scale and distribution of activities within the Assam Co. required coordination of systems and governance to lower the threats of opportunism among the growing numbers of managers who were geographically dispersed. The governance mechanisms within the joint-stock proved ineffectual in resolving these problems. The partnership form of the managing agents allowed Gillanders and Co. to attract and coordinate a growing number of high-quality partners and assistants due to the incentives of profit share and capital investment.

Managing Agency Capitalism

These findings show that entrepreneurs sought adaptive organizational solutions to balance an evolving set of trade-offs between transaction and agency costs. Key to this process was the capacity of the partnership form to reduce the costs of agency incurred by firms operating with geographically distant actors. This resulted in the proliferation of the managing agent form. These findings reinterpret existing explanations of the evolution of firms in the Anglo-Indian trade, showing that problems of managing agents at a distance remained a key challenge throughout this period.

The entrepreneurs in the Anglo–Indian trade did not see the choice of ownership as a dichotomy, with one form replacing the other.

Instead, a symbiosis emerged between the forms, with the strengths of each adapted to mitigate the trade-offs faced by the firms. This evolution shows the entrepreneurs in the mid-nineteenth century undertaking successful experiments in their use of ownership and organizational forms. Their approach to ownership suggests that far from being anachronistic rent-seekers retaining the partnership as a vehicle for family firms to extract profits, these entrepreneurs were innovative and flexible, capable of developing firm structures to meet the demands of the expanding and internationalizing industries such as tea.

More broadly, these findings support the assertions that the integrated corporate firm should be seen as only one among many forms of business organization that could compete and successfully grow global industries. A wide ecology of firm types was active and successful, even as the joint-stock form became readily available and more widely employed in the second half of the nineteenth century. The boundaries of the firm were pushed by entrepreneurs in this period to identify forms that allowed them to achieve the benefits of scale and align the interests of owners, investors, and managers.

While the explanatory scope of the dissertation is limited due to the discrete location of the cases, it raises interesting questions about the choice of business organization employed in other global markets. The managing agents have tended to be viewed as a British model of business organization for managing overseas investments. If this were a distinctly British model, the explanation for their emergence and existence would lie in cultural traits of British entrepreneurship and the financial and legal frameworks that bound London to the British Empire.

If, however, the intuition of this dissertation is correct, and the organization evolved to reduce costs of agency while allowing capital formation, then it could be expected that entrepreneurs of different nationalities would adopt similar forms of business organization to address the challenges of long-distance trade and foreign direct investment. A case for "managing agency capitalism" may be made if the form is found to have proliferated elsewhere.

Further comparative analysis of firms of different national origins, including Dutch and U.S. merchants in Asia, French merchants in Africa, and, conversely, firms of Asian origin, would enable a thorough analysis of these questions. The findings may illustrate different trajectories of internationalization and also identify common factors related to choice of ownership and organization. They would also improve the understanding of the effect that business organization has had on the shape and velocity of globalization across the nineteenth century.