# Reassessing the "absurd, hated and pernicious principle of managing agency": The Role of Hybrid Ownership Forms in the 19th Century Anglo-Indian Trade.

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## Introduction

The passage of the Companies Act of 1844 and the Limited Liability Act of 1855 in Britain lowered the costs and improved the benefits of incorporation. In India, similar acts were passed in 1850 and 1857. Entrepreneurs in the burgeoning Anglo-Indian trade now had a choice of business forms; ventures could potentially be organised as sole-proprietorships, partnerships, and Joint-Stock corporations. Opportunities in new industries such as jute manufacturing and tea production, and the need for investment in infrastructure projects including Railways, called for increased levels of capital investment. The Joint-Stock forms' capacity for deep capital formation and its' effectiveness in channelling much needed capital from Britain to India, saw the form widely adopted in various sectors after 1857.

Yet, by 1870, a system of business organisation centred on firms known as Managing Agencies had come to dominate the trade and much of the Indian economy. The Managing Agent firms, organised as partnerships, promoted Joint-Stock ventures in which they took minority equity stakes, but retained control of these firms through a contract that gave them extensive decision rights in the promoted firm.[1] The Managing Agent received dividends from their shares, but also an annual fixed fee and commission payments based on profits or revenues generated. In return the Managing Agent firm provided managerial expertise, placing their own partners or managers in the managed firm, and acted conduits to finance and labour markets.

[1] Lokanathan, *Industrial organisation.* The agents often took small equity stakes but were able to control key managerial positions, take seats on the board of directors and obtain various powers of attorney through the contracts. The contracts were often signed for periods of ten years, with some being signed in perpetuity.

Of all the business forms used in 19th century India the Managing Agents have been the most controversial. Rungta noted that, "from the [18] seventies onwards, the managing agency system became the most generally accepted way of running business corporations in the country."[2] Indeed, Misra found that by 1915 the Managing Agents controlled 75 per cent of industrial capital in India.[3] Yet, in 1887 the Times of India labelled it the, "absurd, hated and pernicious principle of managing agency," and called for it to be abolished.[4]

Understanding how and why this divisive system of business organisation became entrenched, and analysing its effects on India's economic development to the current day, are questions central to a large literature in business and economic history. This paper develops the literature using a new data-set drawn from Calcutta Business registers that improves understanding of the ecology of business ownership in 19th century Calcutta. The data shows that the 1850s and 1860s saw increasing experimentation with business forms, including a rapid upswing in the use of the Joint-Stock form, however between 1858 and 1868 the Managing Agent form achieved widespread adoption.

Analysis of the rationale for the Managing Agents' proliferation draws on the approach proposed by Guinanne et al, which explains the adoption of business forms as a set of choices shaped by evolving institutional and economic factors.[5] This paper finds that institutional change in the 1850s lowered the costs and encouraged the growing use of the Joint-Stock form to enable flows of capital from London to Calcutta into industries with growing capital requirements. However, this led to a separation of owners and managers that increased costs of agency. The capacity of the partnership form to reduce agency costs, by lowering costs of monitoring, was a critical factor in the emergence of the Managing Agent system in the late 1850s and 1860s.

The hybrid nature of ownership enabled by the Managing Agent form allowed entrepreneurs a great deal of flexibility when dealing with the challenges faced when doing business in India. In particular,

[2] Rungta, *Business corporations in India*, 219-220.
[3] Misra, *Business, Race, and Politics,* 5.
[4] Rungta, *Business corporations in India*, Times of India 7th Jan 1887, 238. Indeed, in 1970 the managing agency system was formally banned in India through the introduction of legislation.
[5] Guinanne et al, "Putting the Corporation in Its Place." Lamoreaux, Raff, and Temin, "Beyond Markets and Hierarchies." Lamoreaux, and Rosenthal, "Contractual Trade-offs and SMEs' Choice of Organizational Form."

this paper emphasises the role played by the incentives of the partnership form that allowed Managing Agent firms to acquire human capital from a limited pool of potential recruits more effectively than their competitors. This allowed them to grow in scale, undertaking a growing range of activities, with higher quality managers, thus outcompeting individual Joint-Stock firms.

Although the data and analysis are limited to Calcutta firms, the findings reinterpret the proliferation and success of the managing agency system. The paper presents a rationale for understanding the organisation of firms undertaking FDI activities in the $19^{th}$ century that opens interesting opportunities for further comparative research of firms from different nations and their activities in global markets.

The paper proceeds with a brief overview of the Managing Agent literature, discusses current explanations and establishes a number of propositions for the form's emergence and proliferation to be reassessed. The new data from the Calcutta registers is first used to examine the emergence of the corporation in India and then to establish the timing of the proliferation of the Managing Agents and examine how their organisational structure evolved. Finally, the analysis and conclusion describe how the organisational features of the Managing Agents led them to subsume the corporations within this hybrid form of business ownership.

**Managing Agents, Joint-Stock firms and Free-Standing Companies**

In his examination of the structure of the Indian economy in the 1930s Lokanathan identified the Managing Agents as unique entities that fulfilled two key functions; these were the provision of managerial expertise as well as capital and credit to other firms. The system had evolved in this fashion due to the weakness of capital markets and low levels of managerial talent to be found in India. Firms, predominantly British owned, with established international networks and access to external stocks of capital, channelled investment and expertise into a variety of industries in India.[6]

Early investigations into the history of the Managing Agents' origins confirmed this explanation. Kling identified the operations of Carr, Tagore and Co. (Tagore and Co.) in the 1830s as the first such firm.[7] Founded as a trading partnership, Tagore and Co. promoted and subsequently took over the management of various Joint-Stock firms in Calcutta. Kling claimed the firm adopted this unusual form due to a lack of available capital in the partnership needed to expand into new industries. The capital and credit markets in Calcutta were thin throughout the first half of the 19th century, constricted by a lack of Joint-Stock banks and low levels of local capital accumulation.[8]

Rungta noted that the lack of an investing class in India in the 19th century led to both a capital constraint, and a cultural constriction in establishing Joint-Stock firms. Indian merchants with capital to invest had little interest in establishing themselves in new manufacturing industries as they were skilled in trade and banking. Instead, they sought reputable expertise provided by the agents to manage

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[6] Lokanathan, *Industrial organisation,* pointed to some significant differences in the organisation and operation of the firms in Calcutta, Bombay and Ahmedabad, due to the industries in which they operated and the extent to which Indian capital and expertise was employed. The discrete economies of each region, driven by variation in emergent industries such as Cotton, and the involvement of local Indian interests, saw Managing Agents develop distinct features. The firms in Calcutta were dominated by European partners and capital, unlike the Bombay firms which had much greater links to Indian capital. There may also have been a difference in modus operandi and structure of the firms due to their origins. Roy, "Trading firms in Colonial India," 29. Roy delineated between Managing Agents that were 'born industrial' and those which had evolved from a career in trade as distinct trajectories, with the trade route predominating before 1870.
[7] Kling, "Origin of the managing agency," 37-47.
[8] Amales Tripathi, *Trade and Finance in the Bengal Presidency 1793-1833,* 121. The lack of capital and credit in Calcutta was exacerbated by the EIC government's policies. Bagchi, *The evolution of the state bank of India, Part 1 1806 – 1860,* showed the limits of Joint-Stock banking in Calcutta and subsequent effects on interest rates.

their investments in these areas.[9] This meant that local managerial expertise remained scarce as few Indians gained experience in the new industries.

Conversely, British trading firms gained managerial experience as they made investments into industries such as indigo.[10] They used their networks to acquire technology and human capital in Britain and Europe. Due to experience garnered through operations in indigo, they had managerial capabilities adaptable to running ventures in new industries such as cotton, jute and tea. Rungta found that the trading firms acted as agents for British insurance and shipping firms from the end of the 18th century. This allowed them to develop the antecedents of the contracts and experience of the systems of long-distance management that would evolve into those used by the Managing Agents.[11]

Lokanathan believed these features made the firms an important element within India's economic development. Others disagreed vehemently, believing the agents to be an exploitative form of organisation that retarded development.[12] The contracts used by the agents gave them extensive decision-making rights in the managed firm.[13] This enabled small numbers of European partners to extract profits and repress the interests of other shareholders. The extraction of profits restricted reinvestment, leaving firms struggling to achieve scale.

This led Rungta to question why the Joint-Stock form had not proliferated as an independent entity, but been subsumed by the Managing Agents, despite the contractual and organisational threats of the Managing Agent model to shareholders.[14] He showed that whilst Joint-Stock firms thrived in a number

[9] Rungta, *Business corporations in India,* the trading firms had built experience in managing operations such as the indigo factories and similar ventures through their gradual integration into production.
[10] Webster, *The Richest East India Merchant* and Singh, *European Agency Houses in Bengal,* detail the integration of British trading firms into industry, in particular indigo. The firms employed different models to manage their activities in the sector, including direct ownership and management of factories.
[11] Rungta, *Business corporations in India*, found that the articles of association for the insurance firms in Calcutta contained similar features to those later used by the Managing Agents, with the 'secretaries' able to exert extensive control over activities in Calcutta.
[12] Davar, *Business organization and industrial management,* showed how the Managing Agents were able to exploit weaknesses in Indian company law to enable practices prejudicial to the shareholders of the firms under management. These included the use of excessively long contracts with little scope for removing the agents, extraction of commissions on a range of unsuitable metrics, and using loans to extract further excessive interest payments from the managed firms.
[13] Lokanathan, *Industrial organisation.* The agents often took small equity stakes but were able to control key managerial positions, take seats on the board of directors and obtain various powers of attorney through the contracts. The contracts were often signed for periods of ten years, with some being signed in perpetuity.
[14] Rungta, *Business corporations in India*.

of industries including banking, transportation and tea, the form failed to find greater traction in India which restricted industrialisation.[15]

The lack of a local Indian investing class with available capital could, however, have been worked around using the Free-Standing Company (FSC) model identified by Wilkins. The FSCs incorporated in one country, but had their primary operations in another.[16] Many such firms incorporated in London to take advantage of the buoyant capital markets, but located their operations overseas, often in sectors such as mining and plantations. Wilkins and other have shown that these firms were significant drivers of foreign direct investment in the late 19th century.

The FSC could have provided an admirable solution to the capital issues in Calcutta, enabling entrepreneurs to pursue opportunities in India, financed by equity capital supplied from the UK. Indeed, accounts of the launch and operations of firms in the tea industry bear a striking resemblance to this model of operation.[17] Chapman, however, claimed that the number of FSCs in India was small and that they did not survive for long. In the tea sector he found that of 15 independently founded Joint-Stock tea companies from 1850 to 1870, 11 were linked to Managing Agents by 1900. The FSC firms initially populated emerging sectors in the 1850s and 1860s such as tea and jute, but were rapidly out-competed by the Managing Agents.[18]

**Explaining the success of an 'absurd, hated and pernicious principle.'**

Why, then, did the Joint-Stock form fail to proliferate? What encouraged owners to give up control and profits to the Managing Agents? Various factors have been proposed to explain their emergence and success. Opportunities in emerging sectors such as tea encouraged new entrants, but, Chapman claimed that established trading firms had various advantages over the newcomers. Their partners often held key roles in local business networks that improved access and control over a range of critical resources,

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[15] Rungta, *Business corporations in India,* appendix 8.
[16] Wilkins and Schröter, *The Free-Standing Company.* The FSC firms were incorporated but had no managerial or operational functions in capital markets such as London, just a 'brassplate'.
[17] Antrobus, *The History of the Assam Company*, and *A history of the Jorehaut Tea Co. Ltd. 1858 –1943* (Tea and Rubber Mail, 1948).
[18] Stanley Chapman, "British Free-Standing Companies and Investment Groups in India and the Far East," in Wilkins and Schröter, *The Free-standing Company*, 218-220.

such as credit and labour, which constrained outsiders.[19] They also had access to networks of private capital in Britain, which proved a more effective system of financing than raising capital through share issues.[20]

Akerlof complemented this argument in his discussion on information asymmetries.[21] The information needed to evaluate projects or monitor investments in colonial markets was limited and often inaccurate, which dissuaded British investors from investing in what were perceived as risky projects. However, Managing Agents were able to use their proximity to the British market through their networks to build trust amongst investors.[22] The Managing Agents acted as a guarantor for the Joint-Stock firms, encouraging both banks and individuals to lend or invest in the ventures.

Capital requirements in the emerging industries were higher than could be adequately managed in the existing partnership system. The risky nature of these projects encouraged participants, both investors in London and entrepreneurs in India, to seek ways to diversify the risk.[23] The dual ownership structure of the Managing Agents reduced exposure for both the managers and investors. For Casson, this was their key purpose, "the separation of ownership and management effected by the managing agency system is designed to distribute the enormous risks involved in the process of colonial and imperial development as widely as possible."[24]

For Chapman the managing agency model was a "legal fiction of agency" through which no real agency activity was undertaken, with the Managing Agent contract a device of control.[25] This allowed the partners to offset the risk of fixed capital investments into the portfolio of Joint-Stock firms they

[19] Chapman, "British Free-Standing Companies," 204-205. The partners in India were often on the boards of banks, agents for insurance companies and on the boards of various infrastructure and transportation companies, all of which provided crucial and limited resources in Bengal.
[20] Chapman, *Merchant Enterprise*. British investors increasingly sought opportunities to invest in profitable colonial ventures. The Managing Agents used their expertise and reputation to attract investment from such private sources. Chapman, "British Free-Standing Companies," 207-208, claimed the majority of projects in India were too small to efficiently raise capital in London.
[21] George Akerlof, "The Market for 'Lemons.'"
[22] Roy, *Economic History of India*, 261. "Given limited information about the capacity of individual managers or the reliability of individual owners, management tended to concentrate in reputed, branded, and publically visible firms."
[23] Chapman, *Merchant Enterprise,* 116.
[24] Casson, "An economic theory of the Free-Standing company," in Wilkins and Schröter, *The Free-Standing Company,* 124.
[25] Chapman, *Merchant Enterprise,* 271.

promoted and effectively controlled. It also allowed them to extract both dividend profits and commission fees.[26] The commission payments, guaranteed over long periods of time, reduced exposure to volatile dividend profits. Chapman claimed, "There can be no serious doubt that the investment group [managing agency] was primarily a device to maintain the wealth and power of the family (or families) that controlled the particular business."[27] Misra also emphasised the importance of control, but one that allowed the firms to restrict access to elite European colonial society.[28] The ownership structure enabled the partners to reserve entry to the firms whilst protecting the partners from the interference of shareholders.[29]

More recently, authors including Roy and Jones have revised the role of the managing agencies, identifying a more nuanced understanding of the incentives and constraints facing the entrepreneurs undertaking long-distance trade and investment in shaping their choice of business form.[30] Jones and Wale concluded that, "the Chapman view of them [Managing Agents] as primarily financial devices to 'maintain the wealth and power' of families hardly does justice to their complexity and durability."[31] The Managing Agents' experience in controlling decentralised trade operations in a wide range of products had equipped them with versatile managerial control systems.[32] For Jones, it was the Managing Agents' capacity to manage information, knowledge, resources and relationships in and between these centres that enabled their success. They were able to reduce information and reputation asymmetries, subsequently lowering costs in obtaining resources and finding markets for their products.[33]

The existing literature on the Managing Agents presents a narrative in which the traditional British trading partnerships diversified into various business activities. First, as sales agents for British firms, second providing managerial services and resources for local industry, third acting as speculators for

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[26] Roy, *Economic History of India*, 259–260.
[27] Chapman, *Merchant Enterprise*, 250-251.
[28] Misra, *Business, Race, and Politics in British India,* 5-7. A view supported in Stephanie Jones, *Merchants of the Raj,* whose interviews with retired partners from a number of Calcutta firms from the mid-20th century point to endemic racism.
[29] Rungta, *Business corporations in India*. Jones, *Merchants to multinationals.*
[30] Roy, *Economic History of India.*
[31] Jones and Wale, "Merchants as Business Groups," 382.
[32] Ibid, 225.
[33] Jones, *Merchants to multinationals*, 6-7.

British and Indian investors. These can be categorised along contemporary business lines: Franchising, Management Consulting and Venture Capitalism. This allowed the Managing Agents to overcome various problems; resource constraints in India, a lack of expertise in emerging industries, and the diversification of risky colonial investment opportunities.

The narrative suggests a simple chronology in which the firms moved from sales agents, to become managers and finally speculators. Kling claimed that the Managing Agents were embedded by the 1850s as they, "[were] the only subsystem in the economy with the capital, business experience and continuity to provide entrepreneurial and managerial talent."[34] Yet, most authors agree that the Managing Agent system rapidly proliferated in the period after 1870. Rungta found there were 31 Managing Agents in Calcutta, managing 90 of the 128 listed companies by 1875, but there is little quantification of the numbers or distribution of agent activity prior to 1870.[35] Indeed, Lokanathan, Jones, Chapman, and the bulk of existing debates about their role and importance focus analysis of the firms in the late 19$^{th}$ and early 20$^{th}$ centuries.

An improved understanding of the proliferation and success of the Managing Agents can be achieved by sharpening the quantification of the ecology of firms operating in Calcutta. The various roles and activities undertaken by the Managing Agents can be better explained by understanding the available choices of business form, and considering the economic rationale for their adoption. In particular, an improved chronology may reveal change over time between the models of Managing Agent activity, showing an evolving rationale for the forms use as risk profiles of industries changed.

[34] Kling, "Origin of the managing agency," 37-40.
[35] Rungta, *Business corporations in India,* 239.

**The emergence of the corporation in Calcutta**

Prior to the 1840s the Joint-Stock form was virtually unused in Calcutta, with only a handful of banks and infrastructure projects incorporating through government charter. The first commercial register to identify firms with tradable stock was in 1843, which listed only eight firms. However, experiments in the indigo sector in the 1840s saw private multiple-shareholder ventures used to find mechanisms to deepen capital reserves and diversify risk.[36]

From the 1840s onwards the Joint-Stock form began to find greater adoption in a variety of sectors. By 1858 the registers provided more details on Joint-Stock firms, listing them by sector including banking, transportation and tea, whilst detailing capital, number of shares, and year of registration. Figure 1, shows that from 1853 to 1858 the number of corporations almost doubled to 30, but it was the next decade that rapid expansion occurred, with 173 recorded in 1868. Both the scale and trends in the timing of the take-off are supported by data collated by Rungta, which also showed a rapid increase in the number of registered Joint-Stock firms after 1860.[37]

This rapid expansion is closely associated with changes in the legal status and procedures for incorporation. In 1850 the Indian government passed an incorporation act, similar to one passed in Britain in 1844, which reduced the costs and bureaucratic requirements of incorporation. Prior to 1850 incorporation was granted by an act of government and was a costly procedure. Likewise, an act granting limited liability as an integral part of incorporation was passed in India in 1857, only two years after the acts passage in Britain. This was a significant incentive for shareholders, since it reduced their exposure to the debts of the firm. The importance of limited liability is borne out by the rapid increase in the number of incorporations in the years immediately after 1857.

[36] BA HC631. The Tirhoot Company was privately held with five indigo factories in the Tirhoot region of Bihar province. The majority of the directors were based in London, although partners from the Calcutta trading firm Gisborne and Co. were also shareholders and directors.
[37] Rungta, *Business corporations in India*, appendix four and appendix eight. This data showed an increase from 24 registered Joint-Stock companies in 1850 to 373 in the whole of India by 1865. These figures are for all firms registered between 1851 and 1865, whereas the registers only account for firms in a specific year.

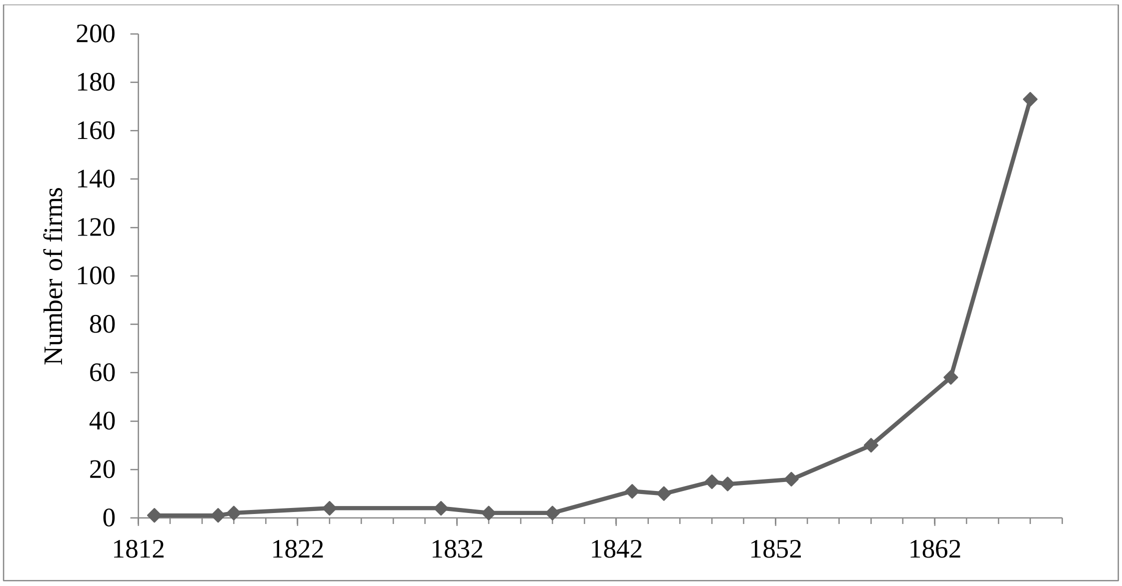


Figure 1. The number of Joint-Stock firms in Calcutta, 1813 to 1868.
Source: BL Bengal Annual Registers, 1813, 1817, 1818, 1824, 1831, 1834, 1838, 1843, 1845, 1847, 1848, 1849, 1853, 1858, 1863, 1868.

A range of securities were traded throughout the 19th century, and the number of brokers increased throughout the period to facilitate these sales, indicative that there was an active market for shares.[38] However, a formal stock exchange was not created in Calcutta until 1908. Prior to that traders met under a 'neem tree' to conduct their business.[39] The lack of a structured market place and exchange facilities may have impeded the issuing process, whilst giving the perception that the trade was unregulated and therefore potentially unsafe, delaying the creation of a more buoyant market for securities and limiting the Joint-Stock form's further spread in Calcutta.

Additional factors that may have contributed to the timing of this take-off can be observed through analysis of the distribution of Joint-Stock firms by industry. Rungta categorised nineteen industries in India in which Joint-Stock firms were located. These categories have been used to classify the firms in the 1868 commercial register. The distribution from both sources is shown in figure 2. In both data-sets

[38] Securities such as government bonds had been promoted and sold by the agency houses. As the number of Joint-Stock companies increased so did the number of specialised stock brokers. BL Bengal Annual Register, 1858, listed 23, which rose to 40 in 1868, indicative of a growing and active market for shares.
[39] The phrase originally referred to a tree where traders would meet, similar to Lloyds Coffee shop in London.

four sectors emerged in which the Joint-Stock form proliferated. These were banking, tea, presses used to compact cotton and jute into bales, and navigation.[40]


Figure 2. The number of Joint-Stock firms by sectors, 1868.
Sources: Data from Rungta, *Business corporations in India,* Appendix 8, BL Bengal Annual Register, 1868.

The thinness of the Calcutta capital and credit markets encouraged the expansion of Joint-Stock banking, and from 1853 to 1868 the number of banks grew from six to 24.[41] As the scale of the Anglo-Indian trade increased, investment in physical infrastructure was also needed. This led to an increase in the formation of firms in transportation, both international (Peninsular and Oriental Steam Navigation Company), and local (the Bengal Steam Tug Association), as well as the infrastructure required to support them (Calcutta Docking Company, Bonded Warehouse Association). The emergence of new industries and opportunities was also seized upon by investors in both India and Britain. The cotton boom of the 1860s saw a rapid increase in investment in the sector resulting in the growing number of

[40] Some of the discrepancies between the data-sets are due to differences in construction. Rungta included all of India, hence the limited number of coffee ventures and cotton mills in the Calcutta data as these industries were located away from Bengal. Other issues of construction explain the difference in the number of insurance companies. Various insurance companies were listed in the registers but were not listed or noted as Joint-Stock. The other large concentrations are the Sundry trade and Sundry manufacturing categories, which accounted for a wide range of local trading and manufacturing concerns.

[41] BL Bengal Annual Register, 1868. Rungta, *Business corporations in India,* appendix 8, found 77 Joint-Stock banks registered throughout India between 1851 and 1865.

cotton mills and presses.[42] It was the Tea sector, however, that experienced the greatest boom, with a rise from one Joint-Stock firm prior to 1858, to 70 in 1868.[43]

The Joint-Stock firms were denominated in both rupees and sterling, indicating the firms were incorporated in both Calcutta and London. The split between the two can be roughly estimated as a number of the entries in the registers show the denomination of the firms' capital. In 1858 there were 13 rupee firms and 5 sterling, rising to 27 rupee and 13 sterling firms in 1863. In 1868, 40 rupee firms and 15 sterling firms were identified in the tea sector.[44] This indicates that the FSC model was used in growing numbers to channel capital from Britain to India.

The rationale for the distribution of Joint-Stock firms can be analysed in terms of the capital requirements for each industry. Rungta found 214 of the 373 firms registered between 1851 and 1865 had data on paid-up capital. Table 1 shows the number of Joint-Stock firms with paid-up capital and the total paid-up capital in each sector. Through the simple division of the number of firms by the total paid-up capital a mean average per firm in each sector can be used as a rough estimate for capital intensity.

The banking sector had not only the largest amount of paid-up capital but also the highest capital per firm. The other sectors with high capital intensity were coal, cotton and jute mills, but these were all sectors that had small numbers of registered firms. The tea industry despite having a large amount of capital invested was moderately low in terms of capital intensity, with an average tea firm having less than one third of the average capital of a bank, and less than half that of a Cotton Mill.

It is notable that the capital intensity of new industries, such as tea, was significantly higher than established sectors like indigo. Ray calculated that there were no fixed capital investments made in the Bengal indigo sector after 1829. Between 1825 and 1829 only £67,000 was invested in the whole

[42] The number of cotton mills and presses were significantly lower in the Calcutta registers as the cotton sector was located in Bombay where conditions for growth were more favourable.
[43] BL Bengal Annual Register, 1868, there were 70 listed tea firms although four of those were noted as being in voluntary liquidation. Rungta recorded 62 tea firms of which only 53 had paid-up capital, so the number of active tea firms may have been lower than recorded in the register.
[44] BL Bengal Annual Registers, 1853, 1863, and 1868.

sector.[45] Conversely, the first tea company, the Assam Co., spent £70,000 in the 18 months after its launch in 1839, of which at least £25,000 were fixed cost investments.[46] Areas such as Assam, where the new tea industry was located, had only passed under control of the EIC government in the late 1830s and had little infrastructure. In particular the new firms had to invest in establishing transportation links to Calcutta.

Table 1. Indian Joint-Stock firms paid-up capital and capital per firm, from 1851 to 1865 and 1866 to 1882

| | 1851 - 65 | | | 1866 - 82 | | |
|---|---|---|---|---|---|---|
| Industry | Capital Rs. (000s) | No. of Firms | Paid-up Capital per firm Rs. (000s) | Capital Rs. (000s) | No. of Firms | Paid-up Capital per firm Rs. (000s) |
| Banking | 44,895 | 30 | 1497 | 31,639 | 227 | 139 |
| Tea | 21,725 | 53 | 410 | 17,692 | 91 | 194 |
| Cotton Mills | 7,276 | 8 | 910 | 35,767 | 42 | 852 |
| Mixed Mills | 1,800 | 2 | 900 | 11,033 | 13 | 849 |
| Jute Mills | 453 | 1 | 453 | 31,257 | 30 | 1042 |
| Presses | 5,514 | 17 | 324 | 12,681 | 39 | 325 |
| Coal | 4,495 | 4 | 1124 | 1,695 | 3 | 565 |
| Navigation | 9,115 | 14 | 651 | 3,465 | 8 | 433 |
| Railways | 0 | 0 | 0 | 2,416 | 4 | 604 |
| Ship/Agents | 1,071 | 4 | 268 | 122 | 1 | 122 |
| Cooperatives | 0 | 0 | 0 | 288 | 17 | 17 |
| Sugar Mills | 253 | 1 | 253 | 716 | 3 | 239 |
| Breweries | 600 | 1 | 600 | 384 | 2 | 192 |
| Insurance | 1,472 | 5 | 294 | 2,569 | 19 | 135 |
| Miscellaneous | 31,401 | 74 | 424 | 57,363 | 122 | 470 |

Sources: Data from Rungta, *Business Corporations of India*, Appendix 12, paid-up capital per firm added by this author.
Notes: The total capital is divided by the number of firms to give capital per firm, which is used to approximate capital intensity. The sample sizes are however small and not corrected for outliers that may significantly affect the mean. The exchange rate is £1 to Rs. 10.

The average capital per firm does not, however, show the variance within a sector. Rungta identified seventeen Joint-Stock tea firms launched in London that had paid-up capital in 1866.[47] The mean nominal capital was Rs. 430,000 (£43,000), slightly higher than the mean for the wider sample but

[45] Ray, *Bengal industries and the British industrial revolution*, 227.
[46] LMA MS27047, Reports of the local board in Calcutta 1840 – 1842.
[47] Rungta, *Business corporations in India*, appendix 7.

nonetheless comparable. However, analysis of the paid-up capital revealed significant variance within the group. The largest firm, the Assam Co., had a paid-up capital of £200,000 and c.300 shareholders, whilst the smallest firm had a paid-up capital of just £10,626. The mean average was £41,736, although eleven of the firms had paid-up capital below £40,000.[48]

As the total number of Joint-Stock firms continued to grow after 1865, the distribution and capital intensity changed. The expansion of the number of Joint-Stock firms in both the banking and tea sectors after 1866 was accompanied by a significant decline in the average capital per firm. Rungta proposed that the adoption of the Joint-Stock form was a response to demand for capital in certain sectors, starting with banking and insurance firms, then, as trade increased, transportation and related sectors, and finally railways and industrial enterprise.[49]

Changes in the number of firm registrations and levels of capital per sector, before and after 1865, show that investment patterns could change. The swing in the supply of capital, predominantly from Britain, occurred as the incentives for investment shifted with the growing demand for certain products like tea and cotton. Meanwhile demand for capital in India also shifted as changes in technology and processes affected the capital requirements in different industries, such as jute and railways.[50] These developments shaped the market for capital and explain the changing distribution of Joint-Stock firms.

In the case of the tea sector, the proliferation of the Joint-Stock form could be explained by both supply and demand factors. The high fixed costs in the start-up phase encouraged the use of the Joint-Stock to raise capital for these investments. On the other hand the positive trade-off between the relatively low capital requirements per firm and possible profits encouraged investors to use the Joint-Stock form to channel their capital to India.

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[48] Ibid. In terms of shareholders the smallest firm had 21, whilst there was a mean of 111 shareholders. The second largest firm in terms of paid-up capital was the Nowgong Tea Co Assam Ltd. which had £72,630 and 280 shareholders. Alternatively the Jorehaut Co. had a paid-up capital of £66,000, placing it third in rank for capital, but only 23 shareholders.

[49] Rungta, *Business corporations in India*, 31.

[50] A plausible explanation for the decline in capital intensity in the tea sector in the 1870s was that the extensive investments in land clearances and infrastructure undertaken in the previous decade reduced the capital requirements for further investment in these areas.

**The rise of the Managing Agents**

As the number of Joint-Stock firms grew throughout the 1850s and 1860s the number and scope of the Managing Agents also accelerated. The registers support the claims of Kling that the form was important long before 1870. The 1831 Calcutta register listed 19 insurance companies dealing with marine, river and fire insurance of which 18 had a secretary listed as an agency house, indicative that the insurance firms were either promoted or managed by the agency houses.[51] However, it wasn't until 1858 that the registers delineated the trading firms that also acted as agents.[52]

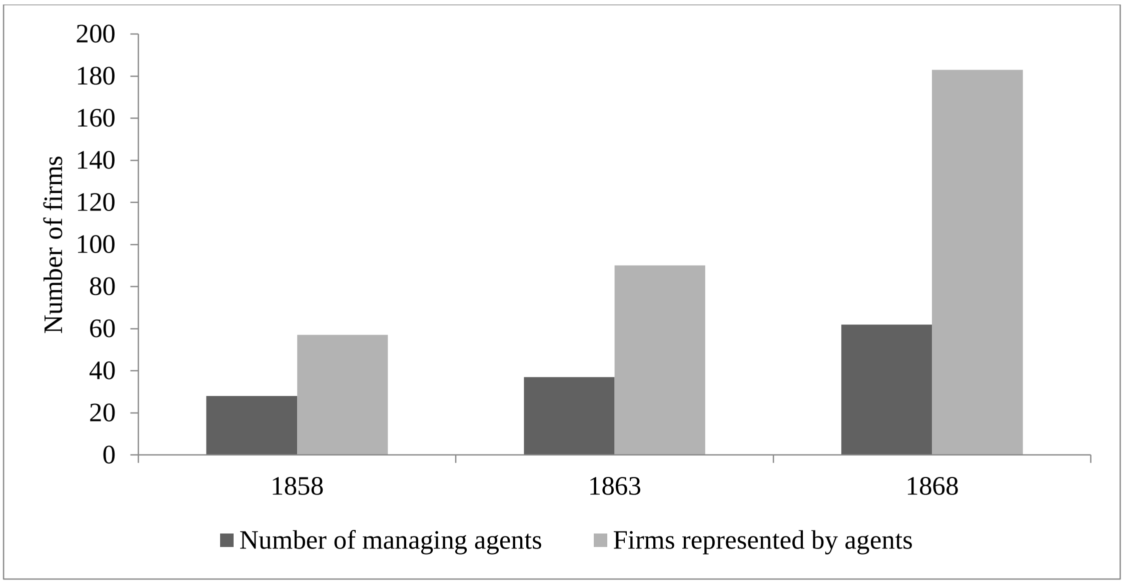


Figure 3. The number of Managing Agents and the firms they represented, 1858 to 1868.
Source: BL Bengal Annual Registers, 1858, 1863, 1868.

In the register of 1858, 28 of the trading firms were recorded as acting as an agent. Figure 3 shows that within ten years the number of Managing Agents had more than doubled to 62, or 37 per cent of the total number of trading firms in the 1868 list. The number of firms represented by them had come close to quadrupling, with 183 firms using agents. Firms represented by agents were predominantly based in Britain or India, although relationships between firms in Europe and the United States were also

[51] Rungta, *Business corporations in India*, found that the articles of association for the insurance firms in Calcutta dating back to the end of the 18th century contained similar features to those later used by the Managing Agents, with the 'secretaries' able to exert extensive control over activities in Calcutta.
[52] The decision of the compilers to start delineating the activities of the agents in 1858 is a strong indication of their growing importance in the local economy.

recorded. This form of relationship and organisation of activities between firms became increasingly widespread in Calcutta.

As both the number of Managing Agents and the number of firms represented by them increased, the registers indicated two significant changes to the scale of the firms. Table 2 bands the number of firms represented by each agent: a single firm, two to three, four to six, seven to nine, and ten or more. This shows a trend for Managing Agent to have contracts with an increasing number of firms. In 1858, 57 per cent of Managing Agents acted for only a single firm. This figure dropped to 42 per cent by 1868, whereas 25 per cent of the agencies represented four or more firms in that year. The mean average of firms per agent increased from 2 to 2.98. Indeed the number of managing agencies that represented more than seven firms increased from only 3.5 per cent in 1858 to nearly 13 per cent by 1868. In that year the eight largest managing agencies represented 74 firms between them, with one agency, Borradaile, Schiller and Co., representing 20 firms.

Table 2. The number of firms represented by each Managing Agent in bands, 1858 to 1868

| | 1 (%) | 2 to 3 (%) | 4 to 6 (%) | 7 to 9 (%) | 10+ (%) |
|---|---|---|---|---|---|
| 1858 | 57 | 25 | 14 | 4 | 0 |
| 1863 | 46 | 32 | 14 | 8 | 0 |
| 1868 | 42 | 32 | 13 | 11 | 2 |

Source: BL Bengal Annual Registers, 1858, 1863, 1868.
Notes: The number of firms represented by each Managing Agent was aggregated into bands of 1, 2 to 3, 4 to 6, 7 to 9, and 10 or more. The number of firms in each band is expressed as a percentage.

The increase in the number of firms represented by each agent was accompanied by an increase in the size of the managing agencies in terms of their managerial capacity.[53] There was a small increase in the mean average from 5.15 to 5.40 managers per firm, but the size of the largest firm increased from 12 to 16 managers.

The range in size and diversity of the managing agencies in 1868 is well demonstrated by a firm like Mackinnon, Mackenzie and Co., which had four partners and 12 assistants on its staff. They acted as agents for the British India Steam Navigation Company Ltd., Delhi Railway, Ramghur Tea Company

[53] Managerial capacity is the total number of partners (senior managers) and assistants (junior managers).

Ltd., Universal Marine Insurance Company Ltd., Queen Fire Insurance Company, Glasgow Jute Company Ltd., India Jute Company Ltd., and were secretaries to Howrah Docking Company Ltd. Conversely, Henderson and Co., with one partner and two assistants, acted solely as agents for the Sun Fire Insurance Office. Indeed the percentage of Managing Agents organised with only one partner or as sole-proprietors increased from 7 per cent to 17 per cent. There was though no clear trend in the relationship between the size of the firm and the scale of agency activity.

The long established pattern for agents to act for insurance companies continued throughout the period. However, as shown in table3, the number of insurance companies as a proportion of the total population of firms represented by agents declined; falling from 61 per cent to 34 per cent. Conversely, the number of tea firms linked to Managing Agents increased significantly. In 1863 five of the 12 tea firms were listed as having agents, whilst of the 70 tea firms listed in 1868, 46 were recorded having a firm act as agent or secretary.

Table 3. Sectors in which the firms represented by Managing Agents were located, 1858 to 1868.

| | Insurance (%) | Banking (%) | Industrial (%) | Tea (%) | Transport (%) | Mining (%) | Trade (%) | Gvmt. (%) |
|---|---|---|---|---|---|---|---|---|
| 1858 | 61 | 4 | 9 | 2 | 11 | 11 | 4 | 0 |
| 1863 | 54 | 1 | 8 | 8 | 12 | 6 | 9 | 2 |
| 1868 | 34 | 2 | 9 | 26 | 9 | 1 | 15 | 4 |

Sources: BL Bengal Annual Registers, 1858, 1863, 1868.
Notes: The number of firms represented by each Managing Agent was classified by industry, and each industry was expressed as a percentage of the total number of firms managed by agents.

The trend in the tea sector towards a widespread adoption of the managing agency form confirms Chapman's findings. He identified 15 Joint-Stock tea firms launched between 1839 and 1875, he found that 11 of these firms were managed by an agent by 1900. He also found that of the largest (£100,000+ Capital) sterling tea companies in India, by 1899, all had Managing Agents in place.[54] This was a notable trend amongst the larger tea firms in 1868. Of the 22 tea firms with nominal capital above £100,000,

[54] Chapman, "British Free-Standing Companies."

18 had agents, whereas of the 21 firms with nominal capital of £50,000 or less only eight had agents.[55] Every firm denominated in sterling worked with an agent.

Trends in two other sectors are also worth noting. The proportion of industrial manufacturing firms using agents remained at roughly eight per cent of the total firm population. These were predominantly firms operating mills, producing iron, and manufacturers of silk, indigo, and cotton. The proportion of firms in transportation and related infrastructure declined slightly but still remained close to nine per cent. These were industries, which, along with tea, were sectors where the Joint-Stock form was widely used. Indeed it was noticeable that the Managing Agents were increasingly closely associated with firms organised as Joint-Stock. The number of Joint-Stock firms utilising agents increased over the course of the decade, increasing from 30 per cent to 42 per cent of all Joint-Stock firms by 1868.[56]

Finally, firms in the area of trade grew from 3.5 per cent to nearly 15 per cent of the population of firms managed by agents. These relationships were predominantly between merchant firms in India and manufacturers in Britain. For example Corfield J and Co. acted as agents for Collis Browne's Chlorodyne, Calvert and Co.'s Carbolic Acid, Moor's Medicated Plaisters, Pogsons Bael Powder, and Freemans Chlorodyne.[57]

The data on agents in the registers does not define the activities undertaken by them. Agency activity in areas including insurance, shipping, and trade often focused on managing point-of-sale activities and building the market for products rather than offering managerial services. However, in industries like tea and manufacturing it is likely that the agents were providing some form of management service. Although the registers reveal over 60 firms acting as agents, the number of those fulfilling the full functions of a managing agency was quite possibly lower.[58]

The extent to which the promotion of firms was undertaken by the agents is difficult to assess. In the tea industry there appear to be both Joint-Stock firms that appointed agents after they had been

[55] BL Bengal Annual Register and Directory, 1868.
[56] BL Bengal Annual Register and Directories, 1858, 1863, 1868.
[57] BL Bengal Annual Register and Directory, 1868.
[58] Rungta, *Business corporations in India,* identified 31 Managing Agents in 1875.

operational for some time, such as the Assam Co. and Jorehaut Co. Yet, some listed in the 1860s appear with an agent attached to them from their inception. The agents, did though, act as both promoters as well as managers in the tea sector in the 1860s.

**Reassessing the role of the Managing Agents**

The new industries that emerged in Bengal in the second half of the 19th century, such as tea and jute, offered distinct challenges. There was a lack of infrastructure which required extensive investments in fixed assets. The data presented in the paper shows that in industries with increasing capital intensity, entrepreneurs were encouraged to adopt the Joint-Stock form to fulfil the demand for capital that exceeded the capabilities of the partnership and to diversify risk. This process was supported by the legislative changes in 1850 and 1857 which lowered the costs and improved the benefits of incorporation. The importance of limited liability in offering protection to investors can be seen in the take-off in the number of incorporated firms after the passage of the act in 1857.

The Joint-Stock form was an effective mechanism in solving the problems of capital formation and efficiently channelling it from London to Calcutta. The founders of the Assam Co. specifically organised as a Joint-Stock for this purpose, with British investors accounting for around 80 per cent of the invested capital.[59] This enabled the tea boom in Bengal in the 1860s, as entrepreneurs and investors incorporated over 70 firms in the sector, with extensive funds channelled from Britain. The registers show that the FSC model, with firms incorporated in London but operating in India, was in use throughout the late 1850s and 1860s.

The decade, 1858 to 1868, however, marks a key turning point, as the Joint-Stock and FSC model proliferated but the Managing Agent form took-off. By 1868, over 40 per cent of all Joint-Stock firms were using agents, in the tea sector the figure stood at 66 percent. The structure of the Managing Agent firms changed in this decade as they responded to opportunities in the new industries. The Managing Agents' expanded the portfolio of firms under management, and to oversee these extended operations the firms' increased the size of their managerial capacity. There was a shift away from the established

[59] LMA MA08796, Original Act XIX of 30th August 1845 for incorporating the Assam Company.

model of a single trading firm acting as an agent for an insurance company, to larger more specialised firms managing diverse portfolios, increasingly made up of Joint-Stock firms in sectors like tea, and light manufacturing. Why, in this period, just as the Joint-Stock form took root, did the Managing Agents rise to prominence so rapidly?

Drawing on the new data the existing explanations can be reassessed. Lokanathan and Kling proposed that the importance of the Managing Agents lay in their capacity to access and channel critical resources. The rapidly growing numbers of Joint-Stock firms were competing for scarce resources, in particular financial and human capital. These problems were exacerbated as the industries such as railways and other transportation firms, tea, and jute were located or expanded beyond the environs of Calcutta and Bengal. The registers show that the majority of Managing Agents in this period had evolved from trading firms, and as Kling, Chapman and others note, were able to utilise networks of partners to access these resources in Britain and Calcutta.

Whilst many of these issues may have been true for Joint-Stock firms incorporated in Calcutta, the FSC firms offered solutions to these problems, indeed the model specifically sought to overcome the problems faced by firms reliant on indigenous sources of capital and management.[60] By raising capital in the London markets they circumvented the shortages in Calcutta. Likewise, many of these firms could draw on the expertise of partners from London based trading firms specialised in trade with India, offering them directorships and similar positions.[61] Chapman's claims that the FSC firms were outcompeted due to their lack of presence in local Calcutta networks can also be challenged. The use of dual-board structures, with shareholders and directors in both London and Calcutta, enabled the FSC firms to leverage access and expertise in both locales.[62] The growing number of FSC firms in the 1860s is indicative that entrepreneurs recognised the benefits of the form and were actively exploiting it in the tea sector.

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[60] Hennart, "Transaction-cost theory and the Free-Standing Company," proposed that the FSC form functioned to internalise transactions for capital, hence the preponderance of the form in areas with thin capital markets.
[61] BL Bengal Annual Register, 1858. In 1858 there were 96 East Asia trading firms listed in London. These were firms most associated with trading with India.
[62] Antrobus, *The History of the Assam Company*, and *A History of the Jorehaut Tea Co. Ltd. 1858 –1943* (Tea and Rubber Mail, 1948).

The Managing Agents were not the only business form that could draw on, and channel, resources from international networks. However, the issues of control, and the capacity for diversifying risk, enabled by the ownership structure of the Managing Agent form provide a more specific set of factors to explain the proliferation of the Managing Agents in the 1860s.

As Roy and Casson proposed, the key benefits of the managing system were flexibility and diversification of risk.[63] In the face of volatile and uncertain markets, particularly in emerging industries, the porous boundaries created by the Managing Agency contracts gave great flexibility to both investors and managers. Yet, what were the capabilities of the Managing Agents that enabled them to successfully diversify the risks of these investments?

Once capital from British investors had been channelled to India it needed to be invested and managed effectively, and the owners in Britain wanted to monitor these investments. At a distance of 10,000 kms between London and Calcutta, the separation between owners and managers was significant. This made monitoring costly, and decision making was also complicated by the separation. These issues were further problematized as the sites of operation moved further away from Calcutta and the settled areas of West Bengal. The partnership form adopted by the Managing Agents provided a superior set of governance mechanisms than those available to the Joint-Stock or FSC firms by which to manage and monitor agents at distance.

These effects can be seen in several ways; as the competition in industries such as tea dramatically increased in the 1860s with influx of new Joint-Stock and FSC firms, the pressure to obtain resources such as human capital grew. Whilst the competition for capital could be effectively solved by the FSC firms, the Managing Agents held significant advantages in the competition for managers. The partnership firms could offer far greater incentives than the Joint-Stock firms. The use of profit shares offered greater returns than the salaries available to the managers of the Joint-Stock firms.[64] Similarly,

[63] Roy, *Economic History of India*, Casson, "An economic theory of the Free-Standing company."

[64] Antrobus, *the Assam Company*, 425. In the 1860s the superintendent (highest paid manager) of the largest Joint-Stock tea firm, the Assam Co., received a wage of £750 to £1,500 per annum, with a small bonus from the profits. The potential returns for the partners were far greater. GG 2552 Ogilvy, Gillanders and Co. consolidated profit and loss accounts for 1872/73. In 1872 Murray Gladstone, partner at the leading managing agency, Ogilvy, Gillanders and Co made £5,665 as his share of the profit and £1,854 interest on his capital.

the capital investment required to enter the partners provided an extremely robust mechanism for aligning the interests of the different actors and subsequently reducing the costs of monitoring.

The incentives allowed the Managing Agents to recruit more and better managers. This was borne out in the increasing mean average of managers amongst all the Managing Agents, and the growth in the size of the largest Managing Agent firms. The partnership agreement also gave these firm great flexibility, offering the partners the capacity to change the levels of incentives, monitoring and enforcement that governed their relationships. This allowed them to respond quickly to changing circumstances and make decisions rapidly, adapting to the market conditions. These findings bare strong similarities to Hilt's finding in the mid-19th century whaling industry. The underpowered incentives and control mechanisms available to the Joint-Stock form at the time proved ineffectual in the hiring and retention of good managers, relative to those of the partnership.[65]

Such adaptability allowed the Managing Agents to experiment with integration into diverse industries; the boundaries of the firm could extend or contract rapidly. Overtime this allowed the agents to develop significant expertise in the management of different industries. The Joint-Stock firms were limited in their capacity to manage agents at distance, and had less flexibility in their organisational structure.[66] It was notable that in the tea sector nearly all the larger capitalised firms and those incorporated in Britain used agents, as the owners sought the benefits of the Managing Agents' monitoring and managerial capacity to watch over and control their distant investments.

Misra noted that "it was this manoeuvrability, guaranteed by the partners' control and autonomy, which was most prized by the Managing Agents," yet went on to claim that the "central concern seems to have been to preserve their control over their businesses, to increase their status within colonial society."[67] Chapman read this need for control as a self-interested effort by the partners to protect their interests from shareholders.[68] The evidence in this paper would certainly support the first claim, but the rationale

[65] Hilt, *Incentives in corporations.*
[66] Michael Aldous, "Avoiding negligence and profusion: The failure of the Joint-Stock form in the Anglo-Indian trade, 1840 to 1870." *Enterprise and Society*, forthcoming. Sircar, *A tale of two boards.* Highlight the problems faced by Joint-Stock firms in the tea sector, due to the problems of governance
[67] Misra, *Business, Race, and Politics in British India,* 5-7.
[68] Chapman, *Merchant Enterprise.*

for control and on-going use of the partnership form, certainly prior to 1870, was motivated by the need to control agents and manage operations at distance.

It is notable that the proliferation of the Managing Agent system in Calcutta was closely linked to the boom in the Bengal tea sector in the 1860s. The flow of capital from British investors increased both the need for monitoring capabilities and the managers to undertake them. The Managing Agent system successfully delivered the monitoring capabilities through the quality of the partners and their management systems.

The findings supports Jones and Wale’s perspective that the Managing Agents’ capabilities were enhanced by the partnership form, but goes further, to propose that the inherent governance problems of the Joint-Stock form retarded its widespread adoption in Calcutta.[69] The importance of British capital in overcoming the limitations of the local capital market enhanced the need for monitoring, and, as Akerlof noted, the Managing Agents provided this service, using their brand and reputation to signal the validity and likely success of investment projects, yet it was the partnership form that enabled them to successfully provide the monitoring and management functions on which their reputation was built.

## Conclusions

In Calcutta the growing importance of capital to fund infrastructure investments in new industries after 1850 encouraged the widespread use of the Joint-Stock form as new industries were established. These interests were increasingly subsumed by the need to obtain managers to staff operations and align them to the interests of owner investors. Owners needed to monitor their distant investments in India. This issue became particularly acute as competition increased, such as the tea boom of the 1860s.

The Joint-Stock form proved less effective at attracting or binding managers, giving the Managing Agents extensive advantages in providing managerial services at distance. The governance of the partnership form, in particular capital investment and profit share, improved the capacity of these firms to attract and monitor managers. This offer a distinctly different interpretation for the difficulties in

[69] Jones and Wale, “Merchants as Business Groups.”

establishing the Joint-Stock form in India. When stripped of the powerful bonding mechanisms engendered by the partnership form the problems of governance created by the separation of owners and managers proved extremely difficult to overcome.

Entrepreneurs reacted rapidly as the choice of business form developed. The choices, partnership, joint-stock and hybrid forms, were effective in solving different economic problems. The relative importance of the problems changed over time, and entrepreneurs adopted and innovated different forms to respond to these challenges. The pace of change could be rapid as the transition between the partnership, Joint-Stock and Managing Agent forms across the 1850s and 1860s shows.

The hybrid Managing Agent form was an attempt to maintain the benefits of the partnerships governance with the capital formation abilities of the joint-stock form. This innovation successful enabled the expansion of the Anglo-Indian trade after 1850, facilitating increased levels of foreign direct investment. Yet, the function and rationale for the form may have evolved after 1870, particularly in the early 20$^{th}$ century. The disadvantages enabled by the weak governance between the partnership and joint-stock firms led to abuses such as insider speculation, tunnelling, and a lack of reinvestment, as profits were extracted by the partners. However, the flexibility of the form had great utility for addressing the challenges of volatile business environments, hence its continued use in India and by British entrepreneurs operating in Asia across the 20$^{th}$ century.

There are significant limits to the generalizability of these findings. The data is derived from the Calcutta and Bengal registers and as Lokanathan and others point out the evolution of the Managing Agents was different elsewhere in India, shaped by different economic and social structures in regions such as Bombay. The tea sector, which so clearly demonstrated the growing importance of the Managing Agents in Calcutta, experienced this phenomena earlier than other sectors. That the Managing Agent form proliferated elsewhere is clear, but the rationale for the timing and sequence of events in the tea sector may be highly specific.

If, however, the intuition of this paper is correct, and the organisation evolved to reduce costs of agency, whilst allowing capital formation and risk diversification, then it could be expected that entrepreneurs would adopt similar forms of business organisation to address the challenges of long distance trade and foreign direct investment in other regions. A case for a form of 'Managing agency capitalism' may be made if the form is found to have proliferated elsewhere.

Further comparative analysis between firms of different national origins, including Dutch and US 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 internationalisation, but also identify common factors related to choice of ownership and organisation. This approach would broaden the Free-Standing Company research agenda and deepen understanding of the emergence of multinational enterprises.[70] It would also improve understanding of the effect that business organisation has had on the shape and velocity of globalization across the 19th century.

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