The East India Company 1749-1800: The Evolution of a Territorial Strategy and The Changing Role of the Directors

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In 1600 the "The Governor and Company of Merchants of London trading into the East Indies" (the first of several forms of what we will refer to as the East India Company) received its charter. By way of contrast, in 1606, "The Treasurer and Company of Adventurers and Planters of the City of London for the First Colony in Virginia" received its charter [11, Vol. III, p. 466]. Between 1616 and 1621 the Virginia company established numerous subsidiary companies to make glass and beads, fish, trade furs, publish an apparel magazine, build boats and even import "Maids to Virginia to be made Wives" [11, Vol. III, p.467]. These two companies (two of the earliest joint-stock companies) reflect two fundamentally different strategies. The EIC was first and foremost a "trading" company, intent on making profits through trading in the far East. Capital was invested in merchandise rather than in fixed assets such as ships or factories. Permanent settlements (factories) were grudgingly established only to the extent they facilitated trade. The traders' bargaining power was enhanced if they could negotiate when the demand for their goods was high rather than when a shipment happened to arrive. For the first century and a half the strategy was to curry favour with the local rulers. In India there was an extensive, established, but complex, political and economic society. For the EIC there was no thought of colonization.

In contrast with India, the political, social and economic environment in North America was much more fluid, less inhibitive, dare one say virginal? The Virginia companies therefore faced a very different environment, had different objectives and emerged with a very different structure much more in keeping with a conglomerate than a trading company. Both the EIC and the Virginia companies may be seen as part of Britain's grand, evolving, imperialist scheme but they reflect two very different strategies and two very different structures. This paper will focus on the EIC, as its strategy changed from being a "mere trading" company, and on some of the concomitant changes which took place at the "directors" level at the company's headquarters (East India House) in London.

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1749-1773: To Be Something more than a Mere Trading Company

James Mill marks 1749 as the year in which the EIC's strategy changed. Prior to that time it had maintained "the character of mere traders, under the protection of the native powers"[7, Vol. III p. 60]. In April of that year the company employed (for a fee) some of its military force to aid a local prince recover his throne at Tanjore. The expedition accomplished its objective (a young lieutenant Robert Clive was one of the company's officers in the assault force), and thus began a more interventionist policy in India. Britain had settled its differences with France (at least temporarily), the treaty Aix-La-Chapelle having been signed in 1848, and there was more military personnel than needed for peace time. Rather than having men sit about idle it made better sense to put them to work and at least recover their expenses. As Mill wryly observed: "...with the masters of troops it seems to be a law of nature, whenever they possess them in greater abundance than is necessary for defence, to employ them for the disturbance of others" [7, p.61].

In fact the French East India company had been following this strategy since the late 1730s with great success under the leadership of Dumas and then Dupleix. Therefore to maintain their trading position in India the companies had to offer the local authorities the military support they demanded. The princes and moguls were not about to extend trading privileges to those who could not at least help them protect their territory. If the EIC was going to succeed in India at least it was going to have to match the offering of the French East India Company. The skirmishes in India continued over the next 8 years, with the French probably holding an edge until Clive's victory at Plassey in June 1757. Many historians identify this date as the one which marked the rise to dominance of the EIC in India. The 1750s also saw a significant change in the composition and character of the Court of Directors. Previously dominated by those Londoners with a special interest in trade (bankers, ship-owners, merchants etc.) another quality became important--*Indian experience.*

The Court of Directors

The Court was made up of 24 directors elected annually. According to a 1734 by-law a director had to remain out of office for one year after serving four continuous years. A director had to own £2,000 shares to be eligible for office and was elected by the proprietors (shareholders) at an annual meeting held in April. A proprietor had to own £500 shares to cast a vote, but had only one vote regardless of the number of shares owned.

The first task of the directors after the election was to elect a Chairman and a Deputy Chairman. The Chairmen were the most powerful in the company sitting on all committees and the Chairman, in particular, was primarily responsible for formulating and implementing the company's policies. Usually the deputy Chairman became the Chairman the following year.

Voting Patterns for Directors, 1754-1775

The record of annual votes cast for the directors is like a seismograph indicating major shifts in the underlying structure of the company. An examination of the voting pattern of the shareholders between 1754 and 1775 (See Charts I and II), clearly shows that something happened in 1758 to disrupt the tranquil, stable routine. However, that shock wave was modest compared to the big one of 1763. Except for 1758 the votes cast for the directors had been averaging around 200 but starting in 1763 the average rose dramatically and became closer to 1000. Sutherland identified 1758 as "the first of those great contested elections for control of the Court of Directors" [12, p. 49]. The new corporate strategy which had begun in India a decade earlier was now impacting the composition of the Board of Directors. The relationships in India were changing and so was the nature of the company's revenues. People with direct Indian experience were now to play a more prominent role on the Board. The instigator causing the sudden surge in voting in '58 was Laurence Sulivan.

Laurence Sulivan and the Bombay Connection

Laurence Sulivan, having made his own way to India as a teenager joined the company in Bombay where he rose to council status and made a 'moderate fortune'. He returned to London in 1753 in his early forties and in 1755 successfully ran as a director for the EIC. Sutherland describes him as "unburdened by scruples, remorseless, vindictive," and having "an unusual aptitude for business and a power of keeping friends which masked his ambition for pre-eminence" [12, p. 58]. One would hardly call these flattering adjectives but her description of Clive was no less critical, "arrogant, suspicious and intolerant of equals"[12, p. 58].

In 1758 Sulivan (along with others who had Bombay connections), led a successful vote gathering campaign against the "traditional interests" in the Court of Directors. Sulivan, after only 2 years on the Board had been selected deputy chairman in 1757 was appointed chairman in 1758. After being out for a year on rotation in 1759 he returned to the Direction and was again elected chairman in 1760 and 1761. He is generally considered to have been one of the most influential directors the EIC ever had. He was instrumental in formulating the policies by which the company greatly expanded its operations in India and by which it endeavored to control the activities of its three divisions in India. Parker [9, p.270] states:

> ...So began a period of five years in which Sulivan completely dominated the Company and its administration, carrying it through the troubles of the Seven Years War, employing his personal fortune to rescue it from financial collapse....

What happened in 1763 which brought about the phenomenal increase in voting activity? There was a dispute as to whether R. Clive's annual jaghire (£29,000) should be renewed and Sulivan led the fight against renewal. Sulivan believed that the payments should go to the company not the individual.

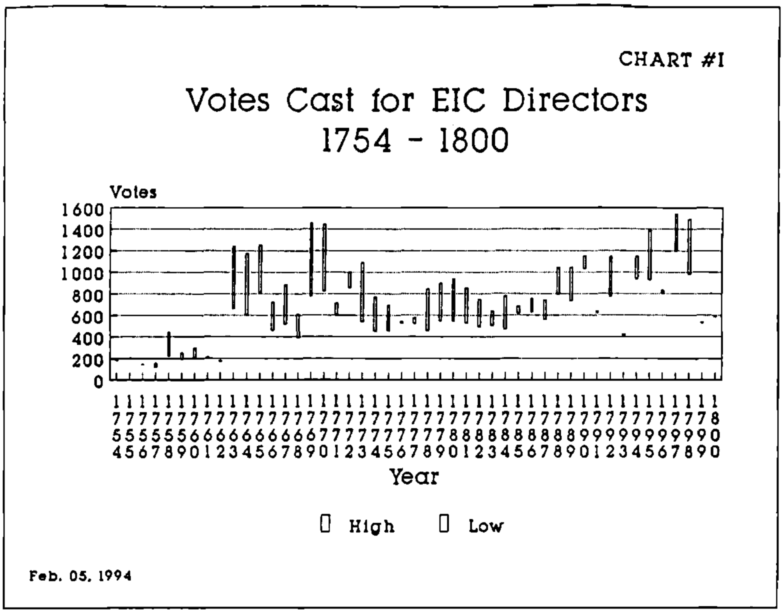
CHART #I
Votes Cast for EIC Directors
1754 - 1800
Votes
1600
1400
1200
1000
800
600
400
200
0
Year
High
Low
Feb. 05, 1994

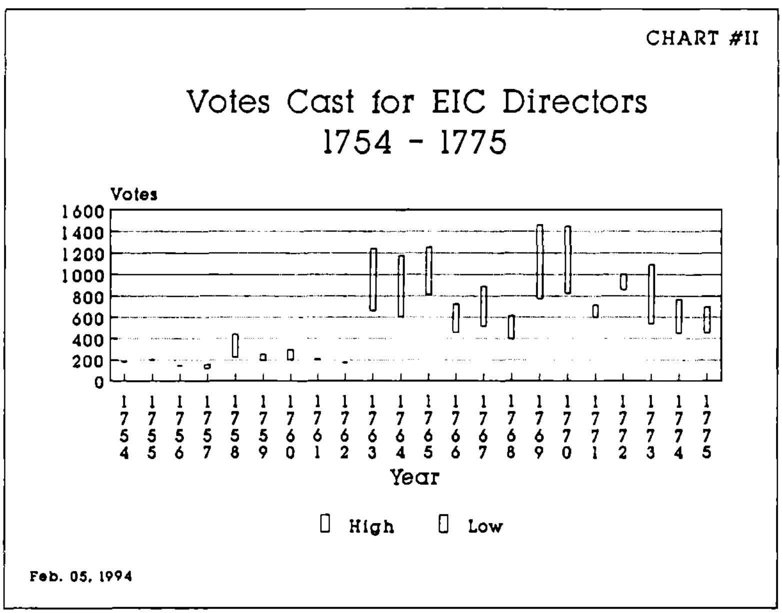
CHART #II
Votes Cast for EIC Directors
1754 - 1775
Votes
1600
1400
1200
1000
800
600
400
200
0
1754 1755 1756 1757 1758 1759 1760 1761 1762 1763 1764 1765 1766 1767 1768 1769 1770 1771 1772 1773 1774 1775
Year
High
Low
Feb. 05, 1994

Clive's Jaghire and Personal Enterprise

As a reward for its assistance in defeating the French and his rival Indian factions, at Plassey, Mir Jafir directly reimbursed the company for its military expenses and in addition the company and certain individuals who had contributed to the victories were given personal financial rewards, in direct currency and also through the right to collect the rent in certain territorial regions. The payments helped the company (for the next three years they did not have to send any bullion to India to cover their trading activities) however, the most noteworthy reward was the jaghire given to Robert Clive.

Payments to individuals, who were also employees of the company, raised a serious policy problem for the company. There was the danger of individuals exploiting their position in the company in order to extract personal "rewards" from the local authorities. It was to remain a serious and continuing problem throughout the life of the company and it was the subject of endless dispatches and bitter reprimands from London. In a dispatch dated February 19, 1762, London asked Fort William to clarify with the Nabob the terms under which trade was to be carried on. They also expressed concern over the reported conduct of some of their employees and stated quite sharply the kind of conduct that was not to be tolerated:

> It has been intimated, that some of our Late Servants had engrossed the Sale of Beetle and Salt, to their own great Emolument, but highly prejudicial to the Interest of the Nabob; as such Measures tend greatly to the embroiling our Affairs, as well as being injurious to the Community, we enjoin you to take the utmost Care, that neither our Servants, or any Persons residing under our Protection, have any Concern in such Farms for the future [13, p. 481].

The foregoing indicates the kind of operational problems and the increasingly delicate "political" balance it had to maintain as it became more deeply involved in India's economic activities.

The Stock Splitting Gambit, 1763

Clive, who had returned to England in 1760, launched a campaign to keep his jaghire. To get a sympathetic Court of Directors he and his friends split their EIC stock holdings into £500 units and distributed them among friends. The result was a seven fold increase in voters in 1763 compared with 1762. The spread between the largest number of votes received compared with the least number of votes needed to get elected was 662, compared with a spread of only 2 votes the previous year. Despite Clive's efforts Sulivan was elected with 765 votes. Indeed Sulivan's close friend Dorrien was made Chairman and Sulivan was appointed deputy Chairman. In Clive's mind Dorrien was a mere puppet of Sulivan [9, p.89]. Sulivan was re-elected in 1764 and normally would have been Chairman but he could not get a majority of directors to support him and so Rous (a strong supporter of Clive) became Chairman. For the shareholders there was one beneficial outcome from this episode. The company's by-laws were changed (1767) so that investors had to own their shares for at least 6 months to be eligible to vote. This by-law hurt Sulivan financially in 1769 [9, p. 271] when he and his friends (again involved in a stock splitting gambit) saw the value of their shares decline during the 6 months leading up to the annual election.

Establishment of the Examiner's Office in 1769

1769 saw the return of L. Sulivan to the Court of Directors. It also saw a very significant development in the organization of the head office with the establishment of the "Examiner's Office". The purpose of this department was to review all correspondence coming from India and to prepare London's initial response to that correspondence. This was not a mere secretarial function. The amount of the correspondence and the complexity of the issues between London and India required that someone be informed on the issues and the details. With the changing composition of the direction and the turnover of chairmen, continuity and informed "knowledgeable" officers were essential for the good management of the company. The responsibility and "de facto" power residing in the person in charge of this department was enormous.

Shortly after entering the Examiner's office in 1819 James Mill wrote:

> I am the only man whose business it is, or who has the time, to make himself master of the facts; scattered in a most voluminous correspondence, on which a just decision must rest, you will conceive to what an extent the real decision on matters belonging to my department rests with the man who is in my situation [6].

Cash-flow Crisis, 1771-72

The jaghire payments to the company might have helped its bullion shipments in the early 1760s but in the early 1770s the company ran into a serious cash-flow problem. With the increase in revenues the company increased its dividend payments in 1768 to 10%, in '69 to 11%, in '70 to 12% and in '71 to 12.5%. These rates were more in keeping with dividends being paid by the Dutch East India company to its shareholders. In March of '72 the company again established a rate of 12.5% but ran into a severe cash shortage and after paying its mid-year dividends had to go to the government to borrow over £1,000,000 to meet its financial obligations. The major reason for the cash shortage was the Bills of Exchange issued in India for payment in London. The Bills were the primary means by which former employees and others who had made their fortune in India could repatriate their money to England. London was aware of the potential problem and in 1768-69 had issued strict guidelines to the divisions in India. They were furious when their instructions were ignored:

> The surprize and indignation we felt on the first intimation of your intentions to open your treasury for sums to be received for Drafts on the Court of Directors, at a rate of exchange different from our

> precise and positive orders in this respect, are increased to such a degree, on finding to what extent you have presumed to violate those orders, that we want words to express our resentment at the conduct of such of our servants as have thus manifested a total disregard to the credit and interest of the company when the convenience and benefit of individuals were in competition with it... [13, Vol. 137, 8th Report, p. 368].

The company considered not paying the Bills but were advised that the company's reputation would be severely damaged if it did not meet its financial obligations.

When Governments Lend a Hand

The government loaned the money to the company but also established a special parliamentary committee to:

> enquire into the state of the East India Company; and for that purpose to inspect the books and accounts of the said company; and to report to the House what they find material therein, in respect to the debts, credits, and effects of the company, as also to the management and present situation of the company's affairs, together with their observations thereupon [13, Vol. 136, First Report, p.3].

One of the results of the government's enquiry was the adoption of the Regulating Act of 1773. Among other things, the legislation raised the minimum shareholding necessary to vote from £500 to £1000.[2] It also incorporated the 1734 by-law which restricted the term of office of the Directors to 4 years, after which they had to be out of office for one year. More importantly, it staggered their term in office so that only 6 directors came up for election each year. In explaining the reasons for the changes the Act claimed:

> ...whereas the electing and choosing of Directors...every year...has not answered the good purposes intended thereby, but, on the contrary, by limiting the duration of their office to so short a time, evidently tends to weaken the authority of the Court of Directors, and to produce instability in the councils and measures of the said Company [1, p. 205].

Clearly the intent was to: a) increase the power of the Directors by not requiring them to face the judgement of the shareholders every year; b) stabilize the composition of the Board, and c) decrease the power of the shareholders. It was not well received:

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[2]Qualifications to vote in the Court of Proprietors was raised from £500 to £1000 but in addition those with £3000 received 2 votes, those with £4000 received 3 votes and those with £10000 or more received 4 votes.

> the Company, Directors and Proprietors...were now struck with the highest terror and resentment....by the clause which raised the qualification of the voters, about 1200 Proprietors were disfranchised; violently, and without compensation, robbed on an important right and excluded from all share, direct or indirect, in the management of their own immediate property: that by destroying the annual election of Directors, those Trustees for the Company were placed above the control of their constituents...[7, Vol. IV, ch. IX, p. 349].

Despite the company's protestations the legislation was passed and it had its desired effect. The turnover of directors (number of directors who had not been in the Direction the previous year) was reduced from an average of 8.5 during the 10 years prior to the legislation to an average of 6.7 in the 10 years following the legislation. Similarly the average number of new directors (first time ever in the Direction) decreased from 4 to 1.6 and the average seniority of the Board of Directors increased from 5.4 to 8.8 years.

On both counts (reducing the power of the shareholders and producing stability in the Direction) the Regulating Act of 1773 was effective. It reduced the power of the shareholders and put more "routine" into the terms of office of the Directors. The investigation by the parliamentary committee helped to point out weaknesses in the structure and of the need for better controls in London. The management of the enterprise remained in the hands of the Chairman and the senior officers of the company who were staffing the new departments such as the "Correspondence" department. The increasing complexity and growth of the company required better trained, better educated managers who devoted their career to the company and their job.

It also meant that the Chairman had to have an understanding of the political world in which he lived. Many of them did and of the 44 men who were chairmen between 1754 and 1834, 22 were members of parliament. It should be noted however which came first; of the 22, eighteen were directors before they became M.P.s, but fifteen became M.P.s before they became Chairman. The experience might have helped them understand what drove the political agenda even if they could not control it.

It is clear, as Gillies [5, p. 30] points out that one of the lessons to be learned from the history of the EIC is that "the corporation is very much the creature of the state, exists at the will of the state and gains its legitimacy and right to operate from the state." From Sutherland's observations there are many other forces which motivate the agenda of governments and which create problems for the manager:

> The story of the unsteady progress of encroachment by the State on the preserves of the Company from 1763 to 1784 requires as its essential background an understanding of the conflicts of persons and groups in Parliament for whom the fate of the Company or India itself was a matter of much less concern than the rise and fall of ministries [12, p.57].

The New Territorial Strategy which emerged in the middle of the 18th century expanded the scale and scope of the company and brought closer involvement with the Government.

Conclusions

The EIC was first and foremost a commercial enterprise concerned with making a profit for its investors. It tried to minimize its involvement in local politics but as its commercial activities expanded and it became a major economic force both in India and in England the economic and political dimension became inseparable. The decision to become something more than a "mere" trading company was not the result of some grand strategy developed in London but rather an "emergent"[3] strategy which evolved locally because of the competitive forces in India at the time.

The personal conflict between Sulivan and Clive might capture the prurient mind of the historian but there was a serious policy question at stake: the relationship between the individual and the corporation and who deserves the rewards of the individual's efforts. Underlying the dispute was the fundamental "agency" problem. Sulivan defended the rights of the corporation, Clive, of the individual, at least as far as his personal benefits were concerned. Clive took a different attitude towards the other servants of the company. The battle between Sulivan and Clive moved to the Board Room (The Court of Directors) and their stock-splitting maneuvers also affected the voting rights of the shareholders. It is not clear whether the six-month ownership requirement helped or hindered the shareholders nor whether the introduction of restricted votes, relative to the number of shares owned, was fair.

The change in strategy and the increased complexity of the company's operations required a significant change in the structure of the London head office (East India House). A new department was established to manage the Indian operations, The Department of Indian Correspondence. The Chief Examiner, who headed up this department, was responsible for overseeing the entire Indian operations and for initiating the company's response to events both in India and in London. Intelligent, highly educated individuals such as James and John Stuart Mill were selected to manage this department; they were the vanguard of the professional managers of the future [2].

The company, as an international trading enterprise, was always familiar with the problems of exchange rates and custom duties. It also appreciated the importance of controlling the cash flow over the trading season. It learned very early the harsh consequences of losing control over its Indian subsidiaries and their impact on the claims against the company's cash in London. It learned the harsh consequences of having to go to the government to borrow money to help it over a cash crunch (shades of Chrysler and the Reichmanns) and the pain of an exhaustive parliamentary enquiry and resulting legislation.

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[3]Henry Mintzberg and J.B. Quinn, [8] use the adjective "emergent" to identify strategies which evolve in response to environmental changes rather than out of a formal planning process.

It is interesting that the first legislation introduced by the Government (post 1749), the Regulating Act of 1773, was designed to separate "ownership and control". It was argued that this was necessary to ensure better, more responsible management. Is this a corollary of the large complex organization? Is this the precedent for the observations of Berle and Means a century and a half later?

Our understanding of the political forces which shaped the EIC has been well documented by authors such as Sutherland [12], Philips [10] and Parker [9] but there remains much to be learned about the management of such enterprises and the way in which they adapted their strategy and structure to deal with these issues. Chandler [3; 4] has given us the models to carry out the analysis, the extensive archives of the India Office Library give us the data to work with.

A more detailed study of the EIC may yet reveal more lessons about the challenges faced by management in directing and controlling large complex international organizations and in dealing with the government at home and abroad.

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