CHAPTER I

THE RISE OF BUSINESS CORPORATIONS IN INDIA

Modern business corporations in India owe their existence to foreign influences and traditions. It was mainly from the operations of the European chartered companies that the Indian merchants learnt about this form of business organisation.¹ The ancient indigenous institutions of the guild type and the territorial groups of businessmen and artisans, plausibly regarded as akin to modern companies, had almost withered away by the end of the fifteenth century in the wake of political disturbances preceding and following the advent of European merchants on Indian waters.²

SOUTH INDIAN JOINT STOCK COMPANIES

A form of joint stock company had come into existence about the middle of the seventeenth century in South India; understandably, as it was here that Indians first came into contact with European merchants.³ During the seventeenth century there was a considerable expansion of trade between India and Europe, and European companies were competing in South India to buy Indian merchandise of which cotton textiles constituted a very important part.⁴ So far the European companies had followed the

¹ See Appendix 1 for a short account of chartered companies.
² See Appendix 2 for a short account of the institution of guilds in ancient India.
practice of procuring supplies through individual Indian merchants who were paid advances. The Indian merchants in their turn advanced money to weavers to secure the output. In a period of expanding trade it was natural that the European companies had to deal more and more with a greater number of smaller merchants to procure supplies. This necessarily increased the cost of supplies as well as created uncertainty with regard to the quality and quantity of goods supplied. Recovery of debts became a great problem. It was primarily to overcome these difficulties that the European companies seem to have fostered among the Indian merchants the idea of organising on the basis of a joint stock company. The small merchants of Coromandel who were often badly hit by the result of their own competition eagerly accepted the idea, but the wealthy Surat merchants did not really favour it and secretly competed with their own joint stock companies in buying goods from the market.¹

Generally a joint stock company consisted of between five and ten merchants who together subscribed an amount varying from 10,000 to 150,000 pagodas.² From the 1660’s many such companies are mentioned in the records of the English and the Dutch East India companies. Their number begins to decline after about 1720 until they disappeared almost completely by the end of the eighteenth century.³ The limited purpose for and the manner in which they were formed sealed the fate of these companies from the start. The document by which they were constituted was primarily a contract for the supply of goods by certain merchants to a European company. For the most part this document contained details of the goods to be supplied, period of delivery, prices, terms of payment, privileges conferred on the merchants by the European company within the jurisdiction of its fortified settlement (as for example, exemption from tolls in certain cases), and the nature of protection afforded to merchants in the case of political troubles.

Mixed together in this contract were four or five clauses which could easily find a place in a memorandum or an article of association or for that matter in a partnership agreement. These clauses

² Gold coins current in South India. One pagoda was equal to approximately 12 shillings.
³ Arasaratnam, IESHR, pp. 85–6.
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were mainly that merchants together should trade with the European company concerned, remaining one with another, in an association; that they should together subscribe a stated capital according to the number of shares allocated to each; that the junior among them should in turn willingly go to the weaving centres to collect goods and further that they should defer to the judgement of senior merchants, the elected ‘heads’, in the management of the affairs of their company, and (in most cases) that the accounts should be settled annually. Among other important features of this document were the provisions whereby the European company forbade the use of the funds of these associations for any purpose except its own trade, any violation being punishable at its discretion. The European companies could, in their own interest, add a new merchant to these associations at any time, and, finally, the terms of this document could not be varied without their consent.¹

The way these companies were constituted therefore left no scope for their future growth. It was as if a few merchants had got together to tender for the supply of goods required by a European company and, having won the contract, could not take on new business from other sources. In such a situation these companies had no incentive either to create permanent capital and increase it or to establish an independent executive. The absence of the latter often created a conflict of interest between the merchants as a joint body and as individuals, particularly when the supply and demand conditions in the market changed. When, therefore, the impetus provided by the European companies was removed the reason for the existence of these companies disappeared. It never seems to have occurred to the Indian merchants to make their joint stock organisationally independent of the European companies. Neither did they think of establishing joint stock companies for carrying on other types of businesses. According to S. Arasaratnam one reason why the partnership idea failed to be popular among Indian merchants was that the commercial castes in South India were evenly divided between two factions which frequently quarrelled.² He does not, however, advance any reason why the idea could not be taken up within

¹ For a copy of such a contract translated into English see Arasaratnam, IESHR, pp. 91–5.
² Ibid., pp. 90–1.
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Each caste group or how it was that for nearly one century joint stock companies kept on being formed in South India. In the Indian context one must remember that partnership does not generally mean partnership between two or more individuals but between two or more joint family businesses, a relationship more difficult to achieve and sustain. Sociological explanations must therefore take into account the limitations of the Hindu joint family institution.¹ On the other hand, sufficient economic incentives may well have been lacking.²

Organisation of Trade and Industry—Some Trends and Features

The emergence of the English East India Company, in the second half of the eighteenth century, as the sole arbiter of India’s destiny had many repercussions.³ Not only did it end the influences of the other chartered companies but the monopoly instinct of the Company dictated the closing of all avenues, British or Indian, which were incompatible with its own trading interests. For example, up to 1834,⁴ the Company pursued a policy of keeping other Europeans away from Indian shores, thus depriving India of much valuable enterprise, skill and capital. This was not all. It is said ‘even merchants from upper parts of Hindostan were expelled and those concerned with export by sea discouraged’.⁵

² See p. 9.
³ The English East India Company started dominating the scene from about the beginning of the eighteenth century. Its position was further reinforced in 1717 by the grant of exclusive privileges by the Moghul emperor. Raychaudhuri, pp. 75–6.
⁴ Some of the monopoly privileges of the East India Company had, however, been abolished at the time of its charter revision in 1813 and India had been partially opened to the free private enterprise of British traders in 1815. Helen B. Lamb, ‘The “State” and Economic Development in India’ in Simon Kuznets, Wilbert E. Moore and Joseph J. Spengler (Eds.), Economic Growth: Brazil, India, Japan, 1955, p. 467.
⁵ Lord Cornwallis, quoted by R. K. Mukerjee in N. C. Sinha, Studies in Indo-British Economy, 1946, p. 4. In fact more than one hundred years before the battle of Plassey, the system of ‘passport’ introduced by the Dutch East India Company and the English East India Company was, in the following years, already having the effect of introducing far-reaching changes in the structure and volume of coastal as well as the South-east Asian and Middle-eastern trade of the Bengal merchants; and although the Bengal merchants benefited in some ways, on the whole their trade diminished very significantly.
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As a result of this policy, much of the free private trade passed into the hands of European servants of the Company and some ‘free merchants’. A ‘free merchant’ was a merchant permitted by the Honourable East India Company to enter a Presidency in India and trade there under licence. ‘The Company did not like them’ but ‘they were tolerated . . . because they were necessary; while the civil and military gentlemen were making their fortunes, they required some dependable person—British for choice—with whom to bank their takings’. 1 The secret of a free merchant’s success lay in ‘his personal tact, his scruples—or lack of them—and in his skill in spotting a stayer in the rapidly changing field of those whose interest was worth cultivating. Between sudden death, sudden disgrace and sudden caprice, it was difficult to depend on anyone.’ 2 In 1710, there were only twenty-nine free merchants in Madras, then the seat of the East India Company, and ‘at the most, they would have trebled or quadrupled by the end of the eighteenth century’. 3

At a later stage, when Company servants were prevented from taking part in private trade, they, ‘finding their habits better adapted for commercial pursuits, obtained permission to resign their situations and engaged in agency and commercial business’. 4 Thus a substantial portion of private trade came to be concentrated in the hands of a few agency houses, which were partnership concerns, and which became the characteristic units of private British trade. The agency house was not simply a merchant firm, dealing in indigo or the coastal trade, but combined all sorts of diversified operations, such as ship-owning, house-owning, farming, manufacturing, banking, bill-broking, insurance etc. These houses were the bankers of the non-trading European community in India and their capital resources ran into millions of pounds

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2 Brown, pp. 4–5.
3 Ibid.
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sterling.¹ By the close of the eighteenth century they had attained such an ascendency as to form, in effect, an oligopoly, controlling a large portion of the internal and coastal trade of the country.² Their dominance was due, among other things, to their capital resources and superior skill in organisation.

It should also be remembered that until the British established the ‘rule of law’ after the Sepoy Rebellion (1857) the country had been almost continuously engaged in internecine wars, both during the reign of the Moghuls and after Plassey.³ The essential concomitants of economic growth, such as peace and security, and the creation of ‘social overheads’ by the State, were largely absent. Before the damage done by an invading army could be repaired, and conditions could return to normal, they would once again be upset by political events. The people of India were relatively poor, and the yield from agriculture was low.⁴ It has

¹ Some idea of their resources can be gathered from ‘the losses sustained by the East India community, in consequence of the failure of the conjoint private bankers and merchants in India . . . ’ (C. N. Cooke, The Rise, Progress and Present Conditions of Banking in India, 1863, p. 348.) on account of the commercial crisis of the mid-1840s. The deficiencies on six houses alone in Calcutta were as follows:

<table>
<thead>
<tr>
<th>Company</th>
<th>Amount (£)</th>
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<tbody>
<tr>
<td>Palmer &amp; Co.</td>
<td>2,600,000</td>
</tr>
<tr>
<td>Alexander &amp; Co.</td>
<td>3,440,000</td>
</tr>
<tr>
<td>Mackintosh &amp; Co.</td>
<td>2,470,000</td>
</tr>
<tr>
<td>Ferguson &amp; Co.</td>
<td>3,260,000</td>
</tr>
<tr>
<td>Colvin &amp; Co.</td>
<td>1,210,000</td>
</tr>
<tr>
<td>Cruttenden &amp; Co.</td>
<td>1,350,000</td>
</tr>
</tbody>
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Total: £14,330,000

² ‘. . . the coasting trade in India, and between the islands, as well as the internal trade of India, were the monopoly of the higher employees of the Company’. Karl Marx in Das Kapital, Vol. 1, quoted in J. Beauchamp, British Imperialism in India, 1934, p. 19. ‘The servants of the Company obtained—not for their employees but for themselves—a monopoly of almost the whole internal trade.’ The Works of Lord Macaulay, ‘Essay on Lord Clive’, Vol. 2, p. 402.

³ After 1858 there were two Indias: British India and the India of the princely states. The latter India contained some six hundred states with one fourth of the population and two-fifths of the area of the Indian subcontinent.

⁴ According to Morris ‘traditional Indian society was supported at a lower level of real income per capita than was the case in early modern Europe or even Tokugawa, Japan’. To support his view he quotes Thomas Kerridge, who wrote in 1669, ‘though this countrie be esteemed rich, we find the common inhabitants to be vere needie . . . ’; cited in W. Foster, The English Factories in India, 1618–1621, 1906, p. 138. See Morris D. Morris, ‘Towards a Re-interpretation of Nineteenth Century Indian Economic History’, JEH, Vol. XXIII, December 1963, No. 4, fn. 16.

The implication is not that the Indian agricultural techniques were under-
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long been asserted that until about the end of the eighteenth century India was by no means backward in world trade and was a great manufacturing nation. But no-one has as yet assessed the importance of India’s trade and industry in relation to the size of her population and the proportion of people involved. The general impression is that much of India consisted of thousands of self-sufficient villages with the bulk of her trade, commerce and industry centred around the ports, religious places, and in the capital cities of rajas and nawabs. But the likelihood of specialisation in the production of textiles, brass and copper wares and animals above the village level makes self-sufficiency a doubtful proposition.

The proportion of Indian population living in large cities would seem to have been higher than many countries in Europe and America until about the middle of the nineteenth century. In the subsequent period the rate of change towards urbanisation became slower in India. No definitive statement can be made about the comparative levels of technology although it has been claimed developed or that the agricultural sector was insensitive to innovation, but extremes of temperature, very short growing seasons, and the restricted supply of soil moisture made it impossible to achieve high yields. Rotation, fallowing, green manuring, and double cropping were known in India. Similarly, tobacco, potato, ground nuts, and plantation crops such as tea, coffee and rubber were quickly introduced and some rapidly spread. Ibid. See also Louise E. Howard, Sir Albert Howard in India, 1953, and Sir Albert Howard and J. A. Voeleker, Report on the Improvement of Indian Agriculture, 1893.

After the book had gone to the Press the IESHR published in its March 1968 issue a debate on Morris’ paper. No alteration anywhere in this book has, therefore been made on this account.


2 For some comparative figures see Kingsley Davis, ‘Social and Demographic Aspects of Economic Development in India’ in Kuznets et al. (Eds.), pp. 269–77.
contrary to popular belief, that India was significantly behind Europe in this respect.¹ This may well be true but with our present knowledge of the facts, the question cannot be settled. There is no doubt, however, that the rate of progress in science and technology had been meagre. For this the explanation may lie in the fact that the size of the trading community was limited by caste; occupations such as metal ware, which form the basis of an industrial community, were restricted to inferior castes.

¹ According to Morris, a comparison with the European technical development between 1400 and 1700 would show that the Indian technology was at about the productive levels of late medieval Europe. He argues, ‘while India produced fine textiles and a few examples of remarkable craftsmanship, we must not mistake manual dexterity for productivity nor assume that dexterity implied the presence of sophisticated tools and manufacturing techniques. In fact, the reverse is true’. He is right when he says that we cannot assume the presence of sophisticated tools but by the same token we cannot assume the contrary. He is wrong when he says, ‘we must not mistake manual dexterity for productivity’. Why not? Logically, manual dexterity or skill in manipulation can certainly lead to greater productivity like any other skill. The fact that India exported large quantities of cotton textiles to Europe almost to the end of the eighteenth century would justify the assumption that India had substantial comparative-cost advantage in this field. Either Europe did not have the skill to produce such fine textiles or the cost of producing them must have been higher. A substantial part of the total cost must be represented by the cost of labour. The wage rates may have been cheaper in India and the raw materials may have been locally grown, but could the two of these alone account for the vast difference in prices between India and Europe? To my mind, no. It is more likely that the productivity was higher in India. The change of direction of trade in the subsequent period is a pointer in this regard. As further evidence to support his argument, Morris says that ‘early European travellers often noted the primitive character of Indian technology when compared with their own’ and that the ‘English factory records of the seventeenth century constantly stress the inelasticity of textile supplies and low productivity’. I am not an expert on the literature of this period but the evidence shows that much greater quantities of textiles were exported from India during the seventeenth century as compared to earlier periods. The supply, therefore, must have increased. T. Raychaudhuri explains this on the assumption that existing idle capacity was brought in use to match demand. The views of Morris and Raychaudhuri can be reconciled if we assume that increasingly less efficient workers were employed. Morris also believes that India ‘used very little metal’. To support this he adduces the evidence that an examination of Indian imports from 1500 to 1800 shows that imports included a substantial proportion of metals in various stages of fabrication. To my mind, his evidence proves the contrary. My knowledge does not warrant me to make any definitive statement, but it would seem that even the Indian metallurgy was not behind Europe before the Industrial Revolution if the gold and silver ornaments, the brassware, copperware and iron and steel products made in India are any evidence.

See Morris, JEH, section III and Raychaudhuri, p. 72.
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Capital was thus divorced from technology, which must adversely affect technical progress. Though this division was due to the caste system, it could have been overcome by applying the concepts of the joint stock company and the factory system of production. Combined, these two institutions held far reaching possibilities and both of them were known to Indians from the latter half of the seventeenth century. Such a situation would suggest that the Indians lacked initiative but it is difficult to be sure. Even in England it was only by the end of the seventeenth century that ‘some idea had been gleaned of one of the primary functions of the company concept—the possibility of enabling the capitalist to combine with the entrepreneur’. Moreover, it seems reasonable to assume that when goods were produced or manufactured by a craftsman at his home, cost items such as wages, rent, lighting, depreciation, etc. were likely to be understated in computing the total unit cost of a product and this may have influenced prices to be on the low side. The cost of production in a factory could therefore be easily higher. Tapan Raychaudhuri’s suggestion that the incentive for introducing a factory system was lacking because demand for textiles was easily met, could not be regarded as sufficient explanation, since if a businessman could see possibilities for economies of scale one would expect him to change over to the factory system of production. Further research must be done before one can be sure.

Stages of Company Growth before 1850

The growth of companies in India was not continuous and during certain periods no progress was made at all. During the hundred years up to 1850 their development can be conveniently divided into four stages: the first period is marked by the foundation of banks and insurance companies, and the second by the stimulus given to the development of banking companies by the break-up of the great Calcutta agency houses in 1829; the invention of the

2 Raychaudhuri, p. 72. The European companies introduced the factory system of production on a limited scale in India; the following reasons may explain their action. Rent was not a true cost inside a fortified settlement. Workers were more willing to shift there for reasons of security. Middlemen profits and bad debts were saved. Such a system allowed greater control over supply in quantity and quality (including styles).
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steamship and expansion of trade and commerce opened the third phase, and the last and most revolutionary stage owes its character to the coming of the railways to India and the development in England of economic conditions and a climate of opinion favourable to the growth of Indian industry.

The first period, that of the founding of banks and insurance companies, dates from the 1780's. The capital market was suffering from an acute scarcity of money and credit, which was damaging the whole trade and commerce of the country. The establishment of a banking company was considered necessary to improve the situation, and the plan of the ‘General Bank' was adopted, though not without opposition, in a public meeting held in Calcutta on 17 March 1786.¹ The Articles of Association of the Bank contained remarkably modern features and it is interesting to note here that they purported to limit the liability of the shareholders to the face value of their holdings.² After rendering gallant service, this bank went into voluntary liquidation under the

¹ In the preceding two decades, the following two companies are also known to have existed, but their details are lacking. The first, the 'Exclusive Society of Trade', established by Lord Clive and his Select Committee in August 1765, after the privilege of private trade had been withdrawn from the servants of the Company, must be regarded as extraordinary both as to its constituents and objects. It had the ‘monopoly of the trade in salt, betel nut and tobacco, to be carried on exclusively for the benefit of the superior servants of the Company’. ‘There were three classes of proprietors and the capital stock was divided into 56 one-third shares, the Governor having 5 shares, the Second-in-Council 3, the General 3, two colonels each 2 shares. The second class was to consist of 18 persons. They were to have in all 12 shares. The third class consisted of 28 persons. They were to have altogether 9½ shares.’ ‘In the second year, the capital stock was divided into 60 shares.’ But the Court of Directors of the Company ordered the abolition of this Society and it ceased to exist on and from 1 September 1767. N. K. Sinha, pp. 72, 73, 96. The second company, an earlier General Bank, was formed by Warren Hastings in an effort to mitigate the stringency of the money market. The Bank had two chief offices, one at Calcutta, and another at Murshidabad, with 14 branches. ‘The statement of accounts ... showed considerable profits between June 1773 and June 1775, of which the Government took half share. The directors, however, failed to grasp the full utility of the scheme and it was dissolved.' (Ibid., p. 144), see also H. Sinha, Eearly European Banking in India, 1927, pp. 9–11 and 98.

² Unless there was a formal contract between the parties, statements alleging limited liability in deeds of settlement and prospectuses were eventually held to be ineffective in England in Re Sea, Fire & Insurance Co. (1854), 3 De G.M. & G. 459.