# 5 Characteristics of Early Joint-Stock Companies

Behold, then, the true form and worth of forraign trade, which is, the great revenue of the king, the honor of the kingdom, the noble profession of the merchant, the school of our arts, the supply of our wants, the employment of our poor, the improvement of our lands, the nurcery of our mariners, the walls of our kingdom, the means of our treasure, the sinnews of our wars, the terror of our enemies.

Thomas Mun, *England's Treasure by Forraign Trade* (London, 1669)

## A *COMMENDA, COMPAGNIA* AND THE SEA LOAN

### Details of Contract Choice

The financing of long-distance trade is an essential part of the early history of the joint-stock form of equity capital organization. Starting in the 15th century, long-distance seaborne trade provided conditions needed for the formation of significant early instances in which equity capital was organized as 'joint stock'. This method of organizing equity capital evolved somewhat haphazardly from partnership arrangements such as the *commenda*. The earliest joint-stock ventures were little more than large co-partnerships with some agreeable method of managing the venture and determining the method of sharing profit or loss. The risks to equity capital and the amount of financing needed to fund commercial ventures during the age of European colonization provided essential conditions for the formation of early joint-stock companies. Corporate charters, traded shares and other features evolved gradually to meet the sometimes conflicting needs of monarchs and merchants. Modern scholarship has given little attention to the role of equity capital in the political and, especially, the social role of equity capitalists during the period. In particular, the pursuit of profit guided much of the human trafficking that underpinned the profitability of long-distance seaborne trade from the 15th to the 18th century.

The basic organization of financing for long-distance trade had passive investors providing goods or money to facilitate the trade, while active 'partners' transported and sold the goods abroad, usually also procuring items for the return trip. Due to the significant risk to principal, traditional methods of debt financing were usually not practical. Passive investors providing equity financing were typically not present when goods were being transported and sold, making it difficult to determine the amount of profit generated. Certain features of the traditional partnership method of organizing equity capital financing created difficulties, especially sharing of liability and determining the amount of profit to be shared. As a consequence, financing of long-distance trade both before and after the emergence of joint-stock companies employed contracting methods that were tailored to the specifics of the commercial context. Modern references to 'sea loans', 'trans-marine loans' and 'bottomry loans' often inappropriately identify such contracts as debt financing, when the essence of the commercial context has key features of a partnership between the passive investor and the traveling 'partner' (e.g., Gonzalez de Lara 2002).

"A contract in which one party invested his labor and the other invested his capital was an eminently practical means of financing commerce" (Pryor 1977, p.5). The use of such contracts is ancient (e.g., Perdicas 1939). At a given point in time, the commercial fundamentals determining the contractual arrangement used in long-distance trade depended on: (a) details of the parties involved in the contracts; (b) the difficulties of the voyage and risk of losing cargo; (c) the ownership and type of transport vehicle—for example, ship or caravan; (d) the location and medium used to effect delivery—for example, payment in goods or silver; (e) the amount and type of collateral, if any, pledged to ensure return of principal; (f) the risk of commercial losses trading and purchasing goods; and (g) the maximum profit that could be earned. In addition, there may be social and political considerations in contract choice, such as civil and canon law restrictions on the payment of interest. At any time and place, a variety of contract types could be in use. For example, both the *commenda* and the sea loan were in used in Genoa and Venice at the time of the Crusades. In addition, contracts could be and were written to avoid the appearance of usury. The practice of settlement in a foreign location using foreign monetary units was often used for this purpose.

Given this, the 'rational' passive investor in a sea loan considered the temporal relationship between the promised 'interest' on the 'loan' (adjusted for the risk of loss from 'acts of God or pirates') and the more certain 'interest' on a local commercial loan. Making reference to modern bottomry loans, the return on the sea loan was conventionally decomposed into 'interest' plus an 'insurance premium' to compensate for the risk of loss during transport. In contrast, the 'rational' passive investor in a *commenda* compared the typical profit on an equity capital investment in an on-shore partnership with that from a long-distance trading venture. Each of these had distinct liability implications for the passive investor. In the sea loan, the investor had risk during transport but did not bear the commercial risk of selling and buying the goods during the venture. In a *commenda*, this additional risk was assumed in exchange for a fixed share of profits. This arrangement raised substantive accounting issues associated with determining actual revenue and expenses. As such, the emergence of long-distance trade during the Middle Ages is an important historical waypoint in the evolution of modern accounting systems that are essential to the management and control of limited liability corporations.

How could the passive investor manage the difficulties of monitoring both expenses and revenues from a long-distance trading venture? Greif (2012, p.445) and followers sought an answer in "bilateral agency relations based on a credible threat of losing future profitable relations in the traders' broader community" for the Maghribi traders and "legal enforcement and a bilateral reputation mechanism [that] were particularly important among the Genoese". Gonzalez de Lara (2001, 2008) extended this approach to identify Venetian commercial success during this period with "public-order, reputation-based" institutions that contrast with the "combined public coercion with private reputation" institutions in Genoa. This abstract argument is used to explain the evolution in use from the sea loan to the *commenda* in Venice from the 11th to the 14th century. Such hyper-modern explanations implicitly assume the depersonalization of markets that proponents claim the contracting mechanisms facilitated. Legal contract form is taken at face value, and essential elements of commercial, political and social context are inadequately recognized.

Despite the presence of "thousands of partnership agreements in the extant cartularies of medieval Genoese notaries . . . we know little about the way in which these partnerships actually carried on their business" (de Roover 1941, p.87). This begs obvious, if unrecognized, questions: Why have almost no accounting records survived from this period, while volumes of notarial records have survived? Does this imply that the commercial and social context permitted only rudimentary accounting methods to be used or that the method of recording and retaining accounting records prevented these records from being preserved? What role did the *ius fraternitatis,* an essential feature of the Roman *societas*, play in contract choice and in the methods of payment and settlement used in the contract? What role was played by social monitoring in the off-shore quarters for foreign merchants that were essential to the execution of long-distance trade? Was contract choice influenced by the level and change in risk of the commercial venture, such as following the destruction of the Italian quarter in Constantinople in 1082 (Fotheringham 1910)?

Regarding 'depersonalization' and contract choice, it is difficult for modern observers—even those steeped in medieval and Renaissance history—to escape the 'individualized' mindset. Kinship, plus an almost filial attachment to the city state and a pious dedication to Christianity, underpinned the spirit of *ius fraternitatis* that circumvented the need for detailed accounting. In addition, there was a "moral community" among Christians that, while changing over time and place, provided for 'rules of conduct' between different political jurisdictions (Nader 2002, p.402). Given this, the historical record of commercial activities during the medieval and Renaissance periods is informed by notarial protests, giving the appearance to modern observers of the need for contract enforcement mechanisms when, it seems, almost all contracts were successfully executed and completed on the basis of honour and trust. Strong conclusions based on the form of contract, such as sea loan versus *commenda*, generally ignore the possibility that the form of the contract could be disguising the commercial context. The well-documented evidence of various machinations used by medieval and Renaissance merchants to avoid the sanction of usury suggest that disguised motivations may also have impacted contract design and selection in long-distance trade.

To illustrate issues surrounding disguised motivations in contract design, consider a sea loan. This contract typically had a fixed 'interest' payment, giving the appearance of a conventional loan. However, the amount of this fixed 'interest' payment may not have been related to a commercial loan but, rather, have been with reference to the expected 'profit' from an equity capital share (not the insurance premium plus interest on a commercial loan). Such a method of setting a return to equity capital is one feasible method of dealing with the difficulties of rudimentary accounting used to determine the *ex post* division of profit at the completion of the venture. The use of 'expected profit' to determine the 'fixed' return on a 'sea loan' involves a sharing of the commercial risk beyond the risk of loss at sea. Such an *ex ante* method of determining partnership shares provides incentives to the travelling partner to do better than expected in the sale and purchase of goods off-shore. Hence, the formal presence of a fixed return on 'sea loan' may be based on 'expected profit', not 'interest'.

Hoover (1926, p.505) reported late 12th-century interest rates on sea loans in Genoa:

> The interest rate to Syria was usually about fifty per cent. To Sicily the rate was customarily between twenty-five and thirty per cent, to North Africa from twenty to thirty per cent, and to Sardinia or Corsica from ten to twenty per cent, with a similar rate to the sea towns of southern France and the small Italian ports near Genoa.

Absent information about the *commenda* profit rate for similar voyages, appropriately adjusted for instances of 'God and piracy', it is difficult to determine whether these 'interest rates' are estimates of the actual return on *commenda* 'shares' after appropriate adjustment for the expenses of the travelling partner. As medieval markets became more 'impersonal' with the growth of seaborne commercial ventures, such contracts would eliminate problems of over-reporting expenses and under-reporting revenues by the travelling 'partner'. Alternatively, sea loans in which commercial risks were comparatively low, such as voyages to southern France or Sardinia, could be used as a contractual vehicle to evade usury restrictions. It is difficult to make definitive statements about the use of debt or equity capital financing based on the surviving notarial records of partnership contracts.

## The *Commenda* Contract

The revival of Mediterranean and European trade coincident with the First Crusade (1095–1099) witnessed the 'appearance' of the *commenda* contract in the maritime Italian city states: Venice, Amalfi, Pisa and, especially, Genoa. Prior to this time, there is limited availability of primary sources with detail about the contracts used in organizing European long-distance trade. Given the erratic commercial environment of the Dark Ages, this is unsurprising. However, despite the situation in Europe, substantial commercial trade continued in the Islamic Mediterranean, across the Indian Ocean and in some parts of the traditional silk routes to the East. Building on the work of Goitein, Udovitch and others, supplemented with interpretations of Islamic and Jewish legal and religious texts, there is information about the organization of equity capital in the regions where merchants of the Italian city states came to access the riches of trading with the East. These sources reveal close similarities between the *commenda* and contracts used in the long-distance trade of the Muslims (*qirād*), the Byzantines (*chreokoinōnia*) and the Jews (*'isqa*). However, it difficult to escape the conclusion that contractual developments in the Italian maritime city states were also heavily influenced by the Roman *societas* (e.g., Pryor 1977).

The earlier availability of Genoese notarial records has established a case for selection of Genoa over Venice and other Italian city states for the lead in commercial innovation during this period. At one level, this reveals the impact of a subtle difference in social context identified by Byrne (1916, p.129):

> The Venetian merchants, members of a political unit of superior organization, were forced by their political concept to subordinate their individual enterprises to the good of the republic. The Genoese merchants, members of a commune continually torn by factions as was no other Italian city in the Middle Ages, politically inapt, were by this very defect enabled to pursue their individual courses more freely. The result was apparently a higher development not only of individual enterprise, but of a collective superiority in the technique of trade, in the formation of commercial organizations in the twelfth century, in the establishment of shares in the public debt of the thirteenth, in the double entry book-keeping of the fourteenth, in insurance and banking in the formation of joint-stock-companies.

Modern interest in the *commenda* to finance trade from Genoa and other Italian maritime states is influenced by the survival of detailed notarial records from the 12th century. Following scholarly examination of the Cairo Geniza by Udovitch (1970) and Goitein (1955, 1960, 1964), considerable, if misplaced, effort has been dedicated to establishing religious influences on the origins of the *commenda* (e.g., Ackerman-Lieberman 2011; Cohen 2013).

The nomenclature used to describe the contract in notarial and other records differed within and across locales. Given this, the general structure of the *commenda* was described by Pryor (1977, pp.6–7) as follows:

1 A sedentary investor, generally known as a *commendator*, delivered capital into the possession of a travelling associate, generally known as a *tractator*.
2 The *tractator* might or might not add capital of his own to that of the *commendator*. If he did not, the contract is referred to by modern historians as a unilateral *commenda* since the capital was supplied by one party only. If he did invest some additional capital, it was usually a half of that contributed by the *commendator* and modern historians refer to the contract as a bilateral *commenda* since both parties supplied capital.

The following conditions usually applied:

3 The *commendator* might give certain directions concerning the management of the enterprise to be undertaken by the *tractator*.
4 The *tractator* took the capital away with him, generally overseas, and put it to work in some way.
5 On expiration of the time or voyages specified in the agreement made between the parties, the *tractator* returned to the home port to render account and divide the proceeds with the *commendator*. Under certain circumstances, or by agreement with the *commendator*, the *tractator* could remit the proceeds without returning to the home port himself.
6 After allowing for expenses incurred and deducting the capital originally contributed by either or both parties, profit or loss was divided according to a ratio agreed upon in the original contract. Generally, and in the archetypal case, in a unilateral *commenda* the *commendator* received 3/4 of any profit and bore all liability for loss while the *tractator* received 1/4 of any profit and bore no liability for loss of capital. He lost the value of his labor of course. In a bilateral *commenda* any profit was usually divided 1/2–1/2 while the *commendator* bore 2/3 of any loss and the *tractator* 1/3.

Pryor was careful to observe (p.7): "This is the archetypal division of profit and loss for both forms of the *commenda* as found in the statutes and most contracts from ports such as Genoa, Venice, Amalfi, Marseilles, and Barcelona. There were, of course, many variations. At Dubrovnik, for example, the 3/4–1/4 division of profit for the unilateral *commenda* was not the rule at all."

Given this background, there was considerable variation across time and location in the nomenclature used in notarys' records, municipal statutes and the like to describe the *commenda* contract. Closer examination of this nomenclature reveals a fascinating cognitive connection between the contractual practices of medieval Italian maritime city states and common commercial terms used in modern times. Pryor revealed the earliest connections (p.13):

> Because the *commenda* was a development of the customary law of commerce rather than of juridical science, the earliest extant sources referring to it are notarial acts and municipal statutes. It is first referred to in 976 in its Venetian form of *collegantia* and the first extant notarial act for a *collegantia* contract dates from 1073. Of the municipal statutes referring to *commendae* whose date can be fixed with certainty, the oldest is the Pisan *Constitutum Usus* of 1156.

This is not to say that '*commenda*' was a common term in municipal statutes and notarial records. On the contrary (p.10):

> Amongst the municipal statutes, the *Constitutum Usus* of Pisa used *compagnia* for the unilateral *commenda* and *societas* for the bilateral, but only the one generic term *societas* when discussing provisions of the law applying equally to both forms of *commenda*. Venetian legislation used the name

> *collegantia* [*colegantiam*] and Amalfitan legislation the name *societas maris* for both forms of *commenda*. The statutes of Pera, Genoa, and Marseilles treated *accomendationes* (Marseilles—*commande*) and *societates* together without differentiating between them in any way.

The modern use of *commenda* to refer to this contractual form in English terminology was likely borrowed from French.[1] More significant, the English use of 'company' is descended from the use of *compagnia* in certain Italian city states to refer to one form of a *commenda* contract.

## The Municipal Statutes and the *Ius Commune*

In addition to the wealth of notarial records starting from around the middle of the 12th century, the municipal statutes of the Italian city states provide information about the workings of commercial ventures in medieval and Renaissance times. Unfortunately, accurate interpretation of these sources requires considerable knowledge of the political and legal specifics in each of the Italian city states. For example, Stern (2004, p.209) recognized: "The Venetian [legal] system was unique and can only be properly studied, understood, and evaluated in the context of the systems of the city-states surrounding it." In particular, unlike other Italian city states, Venice did not follow the *ius commune*: "the combination of Roman and canon law that formed the basis of legal principles in Italy, and to some extent all of Europe, from 1100 to 1800". Not applicable to England, where there was a separate 'common law', the *ius commune* served as the 'common law' in countries that subsequently became civil law countries, such as France and Germany. Rather, "Venice avoided the adoption of *ius commune* . . . in order to fashion law to its own purposes, both in the lack of adoption of Roman law and in the adoption of a system partially grounded in discretion" (p.210).

In medieval and Renaissance Venice, the aristocracy controlled the courts and the legal process. The policing and administrative bodies were staffed by nobility. For purposes of interpreting the municipal statutes, this is significant because of the composition of the Venetian aristocracy (p.211):

> The aristocracy in Venice was formed from the union of the nobility involved in the Byzantine government and the *Exarchate*, and the long-distance, wealthy merchants who often traded with Byzantium. These two groups had everything in common and coagulated into a political group (or class) that could carry forward its agenda. Venetians had no feudal aristocracy to split the upper class, they were not reliant on their guild system, rather on international trade.

As a consequence, the interests of Venetian merchants who were involved in long-distance trade, especially with the Byzantine Empire, would almost certainly be addressed in the municipal statutes of Venice, providing insight into the commercial context surrounding the use of *commenda* contracts. However, the statutes are not a completely satisfactory primary source, for a number of reasons. One reason has to do with timing. As the opening lines of the statutes indicate, the statutes of Venice (*Usus Venetorum*) were the beginnings of a formalization of Venetian customs and law: *Incipiunt usus Venetorum*; *similiter et leges costitunt* ("Here begin the Venetian customs; and also here stand the laws"). The *Usus Venetorum* initially appeared in 1204, with amendments and the addition of chapters continuing until 1236. This places the appearance of the Venetian statutes circa the Fourth Crusade.

The statutes of the Venetian commune appeared over a half century into the commune period (1143–1297). There are 74 chapters, haphazardly prepared, dealing with a range of matters, including the boundaries between ecclesiastical and secular jurisdiction, rules of inheritance and the rights of widows and foreigners. Chapter 30 gives primacy to the *colleganza/commenda* contract over Venetian custom in the long-distance trade of the Venetians (Gasparini 2014):

> **30. If somebody shall receive goods from another as a *colleganza*.**
>
> If someone shall receive goods from another as *colleganza* and shall write a contract, the text of the contract must be abided: and coming to the agreed term, the *debitor* shall give account to the *creditor* of the *colleganza*.

This gives force of Venetian law to the requirement that an accurate accounting be given under the terms agreed upon in the contract. Pryor (1977, p.14) attributed the use of *debitor* and *creditor* to describe the parties to the contract to "the close historical relationship of Venice . . . with Byzantium, the overtones of debt (*chreos*) recognized in the Byzantine *chreokoinonia* may have been inherited in the conception of the *commenda* held at Venice". However, the reference to '*debitor*' and '*creditor*' as parties to the contract may be referencing the accounting process and not characterizing the underlying contract as a 'debt'.

Despite the statute, the difficulty of accurate accounting at settlement was acute enough that an amendment of 1229 was even more explicit (Gasparini 2014):

> **16. About those who received the goods of another in *colleganza*.**
>
> We declare that from now on it must be observed that anyone who received or held goods in *colleganza* shall give a detailed report to his creditor about how he invested and sold, and how he came to miss [anything] from what he received in *colleganza*. And if the *creditor* shall wish, he [= the *debitor*] shall be bound to corroborate by oath all these things which he shall have reported in detail in Court, except those who suffered a shipwreck or robbery. About those, we want that the ancient custom be followed.

The implication here is that the Venetians did adhere to 'ancient custom' in many aspects of long-distance trade. In 1233, a further amendment was added (Gasparini 2014):

> **2. About the payment of a *colleganza*.**
>
> Moreover we order that, if anyone in front of the judges, according to custom, shall offer a sum of money by reason of a *colleganza*, declaring that he is unable to give a different or better account to his counterpart, it shall be in the discretion of the judges whether he [the counterpart] must accept it or not.

The aim of this amendment was clearly to curb litigation surrounding final contract settlement. Such litigation could arise for various reasons. For example, there is a chapter dedicated to "One who accepts goods from another without witnesses". However, based on previous chapters and amendments in the *Usus Venetorum* on the *colleganza*, poor, sloppy or absent accounting was likely the source of most disputes. In a medieval world where writing was a skill and illiteracy was common, disputes over accounts in long-distance trade seem inevitable.

In contrast to Venice, Florence did have a feudal aristocracy to split the upper class. In addition, Florence was not a maritime state, and the reliance on the wool and other industries gave much greater strength to the medieval guilds. As a consequence, Florence developed methods of equity capital organization distinct from the *commenda* and the 'sea loan'. Contrary to the conventional view that contracts used in long-distance trade were the origin of the joint-stock form of equity capital organization, the extended partnerships of Renaissance Florence possess some essential characteristics of joint-stock companies and, as such, represent a distinct evolution from the ancient partnership arrangements common in long-distance trade. The use of *compagnia* to describe important Florentine trading and banking firms, such as the *Compagnia dei Bardi*, reinforce the later English use of 'company'. Braudel (1982, p.436) observed:

> In the end, the large firms of the inland Italian cities were far more important individually than those of the seaports, where firms were numerous but mostly small and short-lived. Away from the sea, some concentration was necessary. Federigo Melis contrasts the 12 individual enterprises of the Spinola family in Genoa for instance, with the 20 partners and 40 *dipendenti* of the single firm of Cerchi in Florence in about 1250.
>
> These large units were in fact both the means and the consequence of the entry of Lucca, Pistoia, Siena and lastly Florence, to the major currents of trade, where one would not originally have expected to find them. They virtually forced their way in and were excelling in the 'sectors' open to them . . . The *compagnia* was not, in short, an accidental discovery made by the landlocked towns, but a means of action developed as necessity arose.

In addition, the growth of Florentine merchant banking propelled the evolution of double-entry bookkeeping. While there are hints of double-entry in scattered fragments from earlier times, there is ample evidence of double-entry in the vast Medici and Datini archives, which hold "the largest collections of business letters to survive before the sixteenth century" (Padgett and McLean 2011, p.1). The 1427 tax census is another rich source of primary evidence on commercial ventures.

Commercial development in Florence occurred somewhat later than in the important maritime states. As late as 1427, well after the Ciompi revolt of 1378, Renaissance Florence had only 37,246 residents (p.19). Being a follower of the *ius commune,* Roman law was present in the first Florentine statute compilations. However, the first municipal statutes of Florence, The Ordinances of Justice of Florence (1293/1295), had a decidedly more political objective. The title of the first chapter of the ordinances is revealing: "Chapter 1. On the Union, Oath, and Agreement of the Guilds expressed in this Ordinance". While the Venetians were holding the Serrata of 1297, which effectively created a "hereditary oligarchy" (Stern 2004, p.212), the Ordinances of Justice solidified the political control of Florence by the guilds: "An upper merchant class rejected the lawless and private-minded feudal magnates to join instead with the guildsmen of the middle guilds". The result was: "a government in which the upper class merchants along with representatives from other classes ruled and the lawless magnates were excluded for the public good" (p.213).

The explicit public identification and discrimination against the aristocratic 'magnates' contained in the municipal statutes is a reflection of the complex and unique history of Renaissance Florence (e.g., Klapisch-Zuber 1997). Documents from this period provide so much political and social detail that it is difficult to assess the impact of specific historical events on commercial developments. Against this backdrop, there is a "precarious discrepancy . . . between the rich archival sources and the scant historiography" on Florentine commercial ventures (Goldthwaite 2009, pp.409–10). Those searching for connections between politics and commercial innovation have ample grist for the mill. The availability of the Datini and Medici archives starting in the 14th century directs attention to the Ciompi revolt of 1378, which "fused economic, social, and political networks into a new socially open oligarchic-republican elite that remade not only commercial markets but also political factions and kinship."

Of these two archives, the earliest is the almost complete collection provided by Francesco di Marco Datini (1335?–1410) covering 1366–1410, with detailed double-entry (minus the *libri secreti*) after 1390, when Datini undertook a major expansion of his business. After a merchant apprenticeship in Prato, in 1358 Datini moved to Avignon, the seat of papal government at that time, to begin a career as merchant trader (Padgett and McLean 2006, pp.1474–5). The archive indicates Datini was a successful trader of goods and was not involved in the business of banking for the papal authorities that involved some larger Florentine bankers. Datini's decision to leave Avignon for Prato in 1382 and then Florence in 1386 captures the subtle influence of political change on the Renaissance merchant. "When Francesco di Marco decided to move to Florence and establish himself there, his decision was partly due to the fact that the city had just come under the rule of a few powerful families—rich bankers, merchants, and professional men—whose laws he thought likely to be favorable to trade" (Origo 1957, p.78).


*Figure 5.1* Map of Tuscany with Florence (*Firenze*) and Prato at the Time of Leonardo da Vinci

*Source:* http://leonardodavinci.stanford.edu

It is tempting to claim that the equity capital organization Datini employed to deal with the growth of his business after 1390 was seminal, in some sense. This is unlikely. Rather, Datini reflects the methods of management and control that the most successful inland trading merchants and merchant bankers of the Renaissance employed. Padgett and McLean (2006, p.1476) identified the organizational features that Datini employed to construct and control commercial expansion and achieve diversification:

1 legally distinct partnerships with branch managers (or the owner) in each location;
2 separate sets of account books for each branch;

3 diversification of companies into multiple industries;
4 a "holding company" arrangement, in which Datini's Florentine partnership owned parts of other partnerships;
5 centralized oversight of branches through vast numbers of business letters between Datini and his branch partners and through regular meetings between Datini and his branch partners;
6 double-entry bookkeeping in bilateral format; and
7 current accounts both among partnership-system companies and with major trading partners (de Roover 1974, pp.144–9).

Though the archive is less complete, various contributions by de Roover demonstrate a similar organizational structure was employed by the Medici Bank. "The organizational structure of the Datini system scaled up easily to the larger size of the Medici bank." Ultimately, though creative and sophisticated, this 'extended partnership' model retained numerous features of the individual partnership contract and does not provide a direct historical avenue to the emergence of the joint-stock company.

## Italian Influence on the Age of Colonization

The progression of equity capital organization for long-distance trading ventures during the 15th and 16th centuries is often obscured in modern sources (e.g., Boardman 2001; Blanc and Desmedt 2014). The most significant ventures during this period originated in the Iberian Peninsula—initially in Portugal then, later, in Spain. This contributes, at least partly, to the limited availability and other difficulties of the primary sources. There was also a complicated and changing political situation in the Italian city states of Genoa and, to a lesser extent, Florence—where the bulk of Italian merchants operating in Spanish trading centers originated—that needs to be integrated with developments in the states of Castile, Aragon and Portugal on the Iberian Peninsula. The historical narrative of the period is often fascinated with details of the great voyages of European discovery and the opening of a sea route from Europe to the Orient. Financial details of these and lesser-known long-distance seaborne trading ventures have emerged slowly, the result of many painstaking contributions by historians working in several different languages; Italian, Spanish and Portuguese documents have yielded sufficient detail to construct the basic character of the equity capital arrangements.

Two essential elements of the early voyages of European discovery, trade and colonization have been understated in the traditional historical narrative: (1) the key role played by equity capital, especially that provided by merchants of Italian origin, in financing the pursuit of profit by merchants and sovereigns; and (2) the reliance on slave trading to achieve profitability for many, but not all, ventures. The most famous of the early voyages, that by Christopher Columbus in 1492, was governed by the *Santa Fé Capitulations*, a partnership contract between Columbus and the Spanish monarchs: "Because all the parties conceived of [the first voyage of Columbus to America] as a commercial venture, the *Santa Fé Capitulations* are mostly devoted to specifying what and how much each partner would invest and how the profits would be divided" (Nader 2002, p.409). The Italian merchants operating in Seville—the Genoese Francesco Pinelli and Giannotto Berardi—loaned funds to Ferdinand II of Aragon and Isabella I of Castile to enable to the Genoese mariner Christopher Columbus to sail in search of a westward sea route to the Orient. Seeking a westward route to the Orient, Columbus optimistically agreed the sovereigns would receive "nine-tenths of the precious goods—specifically pearls, precious stones, gold, silver and spices—brought back from the Indies, and Columbus would receive one tenth" (p.409). When such treasures did not emerge, Columbus resorted to the only feasible source of profit: slave trading.

Because the Church possessed extensive political and economic authority, the moral value of equity capital during this period cannot be ignored (e.g., Nader 2002). Starting in 1500, 'traditional justifications for enslaving conquered people' disguised the role of equity capitalists in pursuing the slave trade in the 'new territories', involving American and Canarian subjects, despite prohibitions by the Church and the Spanish crown. However, the demands of colonization in the Americas and the inability to adapt the local populus to the arduous manual tasks needed to produce cash crops created an irresistible opportunity for slave traders from all the seafaring nations of western Europe during the 16th century. "The royal prohibition began the Spanish struggle for justice"; as a consequence, "Genoese and Florentine merchants resident in Spain were deeply implicated in the Castilian slave trade" (pp.401–2). Though the Portuguese and Spanish crowns jealously guarded their monopoly on such trade with territories in the 'New World'—farming the slaving monopoly to merchants in Iberia not inhibited by moral concerns—the history of this period is replete with instances of seaborne conflict, privateers and pirates associated with French, English and Dutch interlopers in this trade.

It is conventional to start the narrative of the early voyages of European discovery with the capture of Ceuta by the Portuguese in 1415: "it is generally assumed that in Portugal the period of the great discoveries begins with Henry the Navigator, who took the lead after the conquest of Ceuta, in 1415. As for Spain, it is even frequently stated that nothing of importance occurred before the first voyage of Columbus in 1492" (Verlinden 1953, p.203). Various sources demonstrate this narrative is misleading. Italians' pervasive influence in the long-distance seaborne trade from the Iberian Peninsula—starting in the 12th century with the Genoese and the Pisans appearing in Catalonia—needs to be identified. The symbiotic character of Catalan and Genoese interests in long-distance trade was reflected in Sicily (Dauverd 2006, p.46):

> By the time the Aragonese crown acquired Sicily in 1282, both Catalans and Genoese were firmly established in the island . . . Working in tandem, their commercial alliance started in the Middle Ages and continued during the Renaissance. The Genoese-Catalan mercantile entente in the Kingdom of Sicily was both lasting and beneficial because each community needed the other.

*Table 5.1* Genoese Trade with African Ports 1155–1164*

| | Eastern cities | | | | Western cities | | | |
|---|---|---|---|---|---|---|---|---|
| | **Bougia** | **Tunis** | **Tripoli** | **Gabes** | **Ceuta** | **Garbo** | **Saleh** | **Barbaria** |
| **1155** | | **5** | | | | | | |
| **1156** | **200** | | | | | | | |
| **1157** | **148** | **234** | **72** | | | | | |
| **1158** | **106** | **1** | | | | | | |
| **1150** | **109** | | | | | | | |
| **1160** | **773** | **60** | **66** | | **355** | | | |
| **1161** | **225** | | | **88** | **744** | | | **4** |
| **1162** | **41** | **66** | | | **214** | **16** | **50** | **53** |
| **1163** | **409** | **227** | | | **150** | **296** | **340** | |
| **1164** | **518** | | **4** | | **220** | **100** | | |
| | **2,529** | **802** | **142** | **88** | **1,683** | **412** | **390** | **57** |
| | **Total (1155–1159) 875 *lire*** | | | | | | | |
| | **Total (1160–1164) 2,686 *lire*** | | | | **Total (1160–1164) 2,542 *lire*** | | | |

*Source:* Krueger (1933, p.380)

* It is quite impossible to give an accurate account or estimate of this trade. Fragmentary sources missing dates, indefinite statements like *tot, tantum, de rebus* as to amounts, and the omission of destinations cut any estimates of extent and volume down to a minimum. However, in spite of all deficiencies, the sums that do remain have value in themselves in that they show that a trade existed, and a trade that was quite flourishing. These tables shows the relative importance of these cities. The amounts are given in Genoese *lire*.

*Table 5.2* Genoese Trade with African Ports 1179–1200

| | Western cities | | | | | Eastern cities | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Ceuta** | **Garbo** | **Oran** | **Barbaria** | **Tlemsen** | **Bougia** | **Tunis** | **Tripoli** | **Africa** |
| **1179** | **995** | | **33** | | **33** | **149** | | | |
| **1182** | **2,255** | | | | | **364** | **250** | | |
| **1184** | **1,357** | **377** | | | | **444** | **222** | | |
| **1186** | **2,331** | **10** | **5** | | | **380** | **583** | | |
| **1190** | | **86** | | | | | | | |
| **1191** | **7,250** | **3,210** | **430** | **177** | | **2,544** | **1,901** | **466** | **210** |
| **1192** | **673** | **330** | **668** | | | **1,191** | | | |
| **1195** | | | | | | | **110** | | **110** |
| **1197** | **1,731** | | **98** | | | **109** | **26** | | |
| **1198** | **1,177** | **108** | | **62** | | **323** | **20** | | |
| **1200** | **1,703** | | | **80** | | **645** | **20** | | |
| | **18,472** | **4,121** | **1,234** | **319** | **33** | **6,147** | **3,132** | **466** | **320** |
| **Total for western cities: 24,179 *lire;*** | | | | | | **for eastern cities: 10,165 *lire*** | | | |

*Source:* Krueger (1933, p.383).

When the Portuguese arrived in Ceuta in 1415, there was already a well-established Genoese trading presence, a *fondaco*, according to the records of the early Genoese notaries, that stretches back at least to the 12th century (Verlinden 1953, p.205). In turn, the subsequent Portuguese voyages of discovery would not have been possible without considerable previous progress in which the Italians were centrally involved.

Often lost in the historical fascination with the Crusades are the related developments in the western Mediterranean. The Crusades were more than a struggle to recapture the Holy Land; the Crusades were part of a larger conflict between Christian and Muslim spheres for control of territory throughout the Mediterranean and the Levant. In the western Mediterranean, the Genoese played an important role in the conflicts. Moorish control in the Iberian Peninsula commenced in the 8th century. "In 935 the city of Genoa . . . was attacked by a Saracen fleet from Africa, and Genoese churches and buildings were robbed and sacked by Arab bands" (Krueger 1933, p.377). Similar attacks were made on Pisa in the early 11th century. "In 1092 or 1093 the Genoese, aided by the Pisans and Christian princes of Spain, made an unsuccessful attack upon Tortosa [in Spain], then in Saracen hands." This period of hostilities led eventually to a treaty in 1161, initiating a period of peace with Muslim North Africa and allowing Genoese merchants to extend seaborne trading ventures to Morocco (see tables 5.1 and 5.2).

The age of European 'discovery' began inauspiciously when: "In 1162 and 1163, a ship must have passed from the Mediterranean into the Atlantic bound for the district of Garbo and the city of Saleh [Salé]", the capital of the Almohade kingdom (p.381). Such early voyages revealed the difficulties of using large ships designed for Mediterranean trade in the more difficult seafaring environment of the Atlantic. Especially after 1179, trade to Ceuta and beyond increased Genoese knowledge of the trade routes across the Sahara and, most likely, brought Genoese sailors into contact with Muslim and other seafarers who ventured along the African coast beyond Ceuta. As the 12th century progressed, Genoese trade with Ceuta increased in importance beyond that involved in the northern traffic to the medieval fairs. Goods from the Levant, Alexandria and the north were increasingly shipped westward: "Instead of selling . . . Levantine wares to some other African investor, [Genoese traders] sent them to Africa [directly], and so [were] in a position to receive a much larger profit than otherwise". The use of the *societas maris* and *accomendatio* in equity capital financing for this trade is captured in the records of the Genoese notaries.

As revealed in the notarial records, Genoese trade with Northern Africa differed significantly from the more established Levant trade (p.382):

> the African trade and market in the middle of the [12th] century was a business endeavor for the small and average merchant, whose small investments did not present an appreciable total; the unusual commercial privileges and monopolies which the great Genoese families held in the East and which encouraged greater investments and gave larger profits were lacking in the West.

The expansion of Italian seaborne trading routes in the western Mediterranean was not limited to North Africa: "Pisans and Genoese appear in Catalonia at the beginning of the twelfth century. They draw Spain and Portugal into the sphere of the 'international' trade of the time. Everywhere along the shores of the Iberian peninsula they create centers for an activity marked by long-distance maritime trade". When Seville was retaken by Christians in 1248, "Genoa immediately is granted far reaching privileges . . . [The] Genoese *barrio* in Seville during the thirteenth and fourteenth centuries is the foremost center of activity in the Iberian peninsula for the subjects of the Ligurian Republic. A great many Genoese tradesmen are also settled there. The Genoese are even so numerous that they are able to play a part in the conflicts in which Castile is involved and above all in the wars on the sea" (Verlinden 1953, pp.200–1).

If the age of European 'discovery' begins with the first voyages beyond Ceuta into the Atlantic, the age of colonization begins with the 'discovery' of the Canary Islands between 1325 and 1339 by Lanzarotto Malocello, who "was a Genoese acquainted with the Pessagno and had probably traded with them to England". This trade to England was an element in the 14th- and 15th-century Italian convoy ventures that circumvented the land routes for moving goods from Italy to the markets of northern Europe. The connection with the Pessagno reflects the systemic involvement of the Genoese in expansionary activities of the Iberians (p.204):

> In 1317 King Diniz of Portugal had introduced into his country the Genoese merchant family of the Pessagno and since then a series of its members held, during nearly two centuries, the highest positions in the Portuguese navy. Such admirals were not only in command of the fleet; they also built ships and were concerned with trade and exploration.

From this point, the age of colonization was systemically related to European monarchs' dependence on the financial, political and military support of merchants driven by the pursuit of profit. The subsequent development of the economic policies identified as 'mercantilism' by Adam Smith and later critics typically fail to recognize these non-economic aspects.

While the equity capital organizations of the long-distance seaborne ventures of the Genoese and other Italian merchants were based on the *societas maris* and *commenda*, the involvement of monarchs in the age of colonization witnessed a change in traditional financing arrangements. With the discovery of the Canary archipelago:

> From this time, Portugal, Castile, and Aragon were interested in the Canary archipelago. It was made a rule to promise feudal concessions to those who intended to discover and take possession of new territory. The same practice had long been a habit in Italian colonial procedure, especially among the Genoese . . . The expeditions to the Canary Islands went on during the whole fourteenth century, and gradually other archipelagos were explored and colonized with the same methods.

In the Canaries, colonization involved "a long-established European tradition that tolerated enslaving non-Christian war captives" (Nader 2002, p.401).

The early Portuguese voyages were financed by the Crown, usually by borrowing and farming state revenues which asserted monopoly rights over trade. Adventurers were servants of the Crown, receiving titles and land grants for services rendered to the Crown. The name of Vasco de Gama still resonates in modern times due to the previous efforts of the little-known Portuguese merchant Fernão Gomes and the Genoese merchant family of the Pessagno (Verlinden 1953, p.204). The opening of the seaborne trade route to the Orient altered the situation in Africa, where Portugal had maintained 'first-mover' status (Williamson 1927, pp.34–5):

> Portugal, her most enterprising leaders pushing on to wealth and power in the East, had reduced her African activities to a system which had become rather stagnant by the middle of the sixteenth century. In the north she conducted the foreign trade of Morocco, but made no pretence to conquest or suzerainty over the Moslem princes of that country. From the Senegal down to the Congo she did claim political jurisdiction over the coast. Her authority was more nominal than real. At Elmira on the Gold Coast, and perhaps at two or three other places, there were fortifications and Portugese garrisons. Elsewhere, in river-mouths and negro settlements offering good trade, there were Portugese factors and a few priests. But in general the occupation was so thin as to be invisible. The Portugese claimed the negro chiefs were Christians and vassals of the crown, yet it is certain from their observed behaviour that the claim was fictitious. More effective was the Portugese exploitation of trade. The commerce of the African conquests was a royal monopoly, shares of which for given places, commodities and times, were farmed to capitalists who paid a fixed sum and made what they could of the bargain. One of the most important of these farms was that of the slave trade. The chief place of sale was in the Spanish colonies of the West, and the Spanish slave-dealers, having no African property of their own, had to obtain their supplies from groups of Portugese undertakers. The Portugese crown maintained this monopoly system with strictness, allowing no African trading to the unprivileged among its own subjects; buts its enforcement against foreigners rested upon the assumption that Portugal had the power as well as the right to debar them.

The ancient practice of farming state revenues to well-connected equity capitalists contributed to 16th-century Portugal's inability to protect its African trade from English, French and Dutch interlopers.

## B THE EMERGENCE OF JOINT-STOCK COMPANIES[2]

### What Is a Joint-Stock Company?

The origins of the joint-stock company have been a topic of scholarly debate for decades, if not centuries (e.g., Schmitthoff 1939; Kim 2011; Kryiazis and

Metaxus 2011). The introduction of legislation impacting joint-stock companies in England during the first half of the 19th century stimulated much interest (e.g., Wordsworth 1845). Recognizing that many of the early northern European 'joint-stock' companies of the 16th and 17th centuries originated in long-distance seaborne trade, in which the capital requirements of the venture required a large number of 'partners' to combine equity capital, the search for 'origins' has led some to suggest the equity capital organization used in the long-distance seaborne trade and the banking ventures of medieval and Renaissance Italy. The early Pisan use of *compagnia* to describe a form of the *commenda* suggests such a connection. Others reject such a connection and, where the English case is involved, find: "The development of the joint-stock company in England is characterized by a singular continuity. An unbroken line leads from the guild to the regulated company, and thence to the joint-stock form" (Schmitthoff 1939, p.79).

To trace the evolution of the joint-stock form of equity capital organization, it is helpful to distinguish between several types of joint-stock companies that had appeared in England by the passage of the Joint Stock Companies Act (1844) (Todd 1932, p.49): (i) unincorporated and unregistered; (ii) incorporated by Royal charter; (iii) incorporated by private act of Parliament; (iv) formed using privileges conferred upon by Letters Patent; (v) incorporated by registration under the Companies Act. This list omits joint-stock companies operating under 'provisional agreements' while seeking approval under one of (ii)–(v) but is otherwise in agreement with Wordsworth (1845). Though closely connected, the limited liability feature, introduced in the Limited Liability Act (1855) and by amending the Joint Stock Companies Act (1844/1856), is an additional legal feature that a joint-stock 'company' can possess. In modern times, a joint-stock company incorporated with limited liability by registration is referred to as a 'corporation'. However, in England issues surrounding the creation of incorporated 'joint-stock companies' were debated separately from those of allowing general limited liability as a feature of incorporation (e.g., Bryer 1997).

Given this, any search for the 'origin' of the joint-stock company will, ultimately, be futile. The most that can be done is to identify specific 'joint-stock company' features and to seek a previous historical instance in which a particular feature was observed. The first feature identified by Wordsworth (1845) is the distinction between "private partnerships" and "public companies, where a great number of persons are concerned, and the stock is divided into a great number of shares, the object of the undertaking being of an important nature, and often embracing public as well as private interests or benefits." As Taylor (2006, pp.3–4) observed, the transition from partnerships to joint-stock organization required a fundamental change in social attitudes toward 'public companies':

> [incorporated] companies were not an invention of the nineteenth century. Since medieval times, the state had delegated corporate powers to favoured subjects for public purposes, usually religious, educational or municipal . . . From the sixteenth century, corporate powers began to be extended to profit-making concerns. These were mostly overseas trading

> companies, which in addition to the privileges of incorporation, were also granted monopoly trading rights . . . The creation of profit-making corporations with monopolies attracted controversy at an early stage: were these institutions really serving the public interest, or were they the by-product of cash-strapped monarchs selling privileges to the highest bidder?

Prior to the legal legitimacy provided by the Joint Stock Companies Act (1844), justification for the delegation of state powers, either by the monarch or by the legislature, depended on merchants applying for incorporation to "prove that their projects were in the public interest."

Observing that joint-stock companies could be unincorporated and unregistered implies incorporation is not a necessary feature of joint-stock organization. The description by Wordsworth (1845, p.2) is revealing:

> Unincorporated companies and associations differ in no material respect as to their general powers, rights, duties, interests, and responsibilities, from mere private partnerships, except that the business thereof is usually carried on by directors, or trustees, or other officers acting for the proprietors or shareholders, and they usually extend to some enterprise in which the public have an ultimate concern.

Similarly: "in unincorporated companies the shareholders are personally responsible in their individual capacities for all acts of the officers and company, in the same manner and to the same extent as private partners are . . . members of unincorporated partnerships . . . may be answerable for the debts of the firm, to use a recent expression of the Lord Chancellor 'even to their last shilling'." However, in the period between the Glorious Revolution and the passage of the Bubble Act, the unincorporated joint-stock company did have a method of organization that was assumed to be legal. This method involved using deeds of settlement to create trusts, managed by trustees, holding the property of the shareholders. In this fashion, the 'company' acted through trustees "rather than as a mass of individuals, approximating the corporation's ability to sue and be sued in its own name" (Taylor 2006, p.4). In some cases, the deeds allowed shares to be freely transferred and allowed for limited liability, though this feature was disputable in law.

The rudimentary unincorporated and unregistered joint-stock company was eliminated in England by the Joint Stock Companies Act (1844), which required companies with more than 25 shareholders to register. The act also required "Every partnership with a capital divided into shares, transferable without the express consent of all the co-partners" to register as a corporate joint-stock company. From the perspective of equity capital valuation, this is a profound development: Companies with tradeable shares had to incorporate. The subsequent addition of limited liability to the mix established the framework of equity capital organization needed to sustain modern exchange trading. However, while requiring incorporation, the Joint Stock Companies Act gave those registering new companies scope to choose limited liability.

## Medieval Corporations and Other Precursors

Joint-stock companies represented a gradual evolution from the partnerships, medieval corporations (e.g., guilds) and regulated companies that had previously characterized equity capital organization. The early history of joint-stock companies is structured around individual companies with a well-defined public purpose. It was not until the second half of the 17th century when economic and legal changes had progressed to the point where the start of a 'general movement' away from partnership and toward joint-stock organization can be detected. It was not until the second half of the 19th century that the evolution of the joint-stock company into the limited liability corporation with autonomous, exchange traded shares was completed. Though there were some significant continental European developments, such as the early introduction of the Dutch East India and West India Companies in Holland, the thrust of the general movement toward 'commercial capital associations with corporate character and tradeable shares' appears in England following the Glorious Revolution of 1688 (e.g., Macleod 1986; Murphy 2009).

Much of medieval business organization was structured around municipal regulation. For example, the regulation of guilds, taxation of goods, and the production of coinage were largely municipal. Craft industries bound to local markets protected by municipal guild regulation did not require much capital, and the capital that was invested was not subject to much risk. The need for pooling of equity capital was muted. Trading enterprises, particularly those

*Figure 5.2* Syndics of the Clothmakers' Guild (1662) by Rembrandt van Rijn (1606–1669) in the *Rijkmuseum*, Amsterdam

involved in long-distance seaborne trade and certain types of mining and metal manufacture, were different. The amount of equity capital required was larger, the risks were often substantial and, in the case of seaborne trade, the equity capital was tied up at least for the duration of the expedition and subsequent sale of goods. A related situation arose in large-scale mining, where there was also a sizeable capital stock required, with attendant risks and a long investment period. It was with these two types of commercial ventures that the first instances of commercial joint-stock ventures arose. However, for cash-starved monarchs of the 16th century, regulated companies sometimes had certain political advantages over joint-stock companies.

Hecksher (1955, v.1, p.392) characterized joint-stock companies as being 'capital associations of a corporate character'. This somewhat obtuse characterization distinguishes the joint-stock company from the partnership, a non-corporative capital association, and from corporate associations either not bound together by capital, such as the guilds, or where the capital was not common, as in the regulated companies. Using Hecksher's definition, the first capital associations of a corporate character arguably did not arise in commercial ventures but, rather, were an outcome of the organization of public credit in the Italian city states, especially Genoa. Two types of such organizations can be identified (e.g., Hecksher 1955, v.1, p.334; Braudel 1982, p.440). One type, the *maone* (*mahone*), was associated with groups of individuals combining to outfit a military expedition, in exchange for a share in the profits of the expedition. As colonization was sometimes involved, the *maone* could become involved in colonial administration, as with the island of Chios following colonization successfully undertaken by Giustiniani in 1346, marking a period of 'light' rule by Genoese families lasting until 1566.

The other type of early Italian capital association of a corporate character, the *compere*, arose from organization of state creditors. Braudel (1982, p.440) observed: "The *compere* were state loans, divided in *loca* or *luoghi*, secured against the revenues of the *Dominante*." While less active than the *maone*, these organizations secured control over city state revenue sources in order to ensure the security of payments on debt capital that had been lent to the state. Having control over state credit permitted the *compere* to be a conduit for further lending to the state. In some cases, this financial importance permitted the *compere* to secure special privileges. One important *compera* found in Genoa was the *compere* that, similar to the *maone*, secured the privilege of establishing the famous bank, the *Casa di San Giorgio* (Bank of Saint George), in 1408. The perpetual 'bonds' issued by the Bank of Saint George were (from 1419) the variable dividend *luoghi*, one of the most stable and noteworthy securities of the 16th and 17th centuries. The variable, not fixed, payment and transferability of the *luoghi* gives these capital associations some, though not all, essential features of joint-stock shares. However, when the additional banking activities of the *Casa* are taken into account, the picture is less clear.

There is a lack of agreement about where the joint-stock form of business organization originated: "can these *compere* and *maone* really be described as joint stock companies? Scholars are divided over this" (Braudel 1982, p.440).

Hecksher (1955, v.1, p.355) made a clear statement of one position on this point:

> It is usually considered, in the literature on the subject, that the *compere* were no joint stock companies but altogether non-commercial associations like, for example, the Board of Foreign Bondholders in the late 19th century. The economic correspondence between the *compere* and several of the most famous companies at the end of the 17th and the beginning of the 18th century is, however, complete almost down to the smallest detail. Both the Bank of England, the English South Sea Company, John Law's French Mississippi Company, as well as other well-known institutions of this period, were originally associations of capitalists who obtained the right to pursue various kinds of trade in return for making fresh loans to the state, or for taking over old ones. The Bank of England, in fact, had precisely the same function as made the *Casa di S. Giorgio* famous. The correspondence here is obvious. The only doubtful point is whether the origin of the more recent of these organizations can be attributed directly or indirectly to the influences of the earlier ones.

This authoritative statement calls into question the often-expressed modern view that joint-stock companies were developed during the 16th and 17th centuries to meet the requirements of long-distance seaborne trade (e.g., Kindleberger 1993, p.191; Clough and Rapp 1975, p.152). Details of other aspects relevant to joint-stock organization, such as the degree of separation between ownership and control and whether shares were transferable and could be exchange-traded, do not attract attention.

The view that joint-stock organization arose due to the requirements of long-distance seaborne trade is understandable. By the 16th century, maritime partnerships had evolved to the point where it was common for individual voyages to involve a large number of co-owners who divided the cost of the ship and its cargo. Examples of these arrangements were the *loca navis* in the Mediterranean—a *commenda* where the ship and cargo was divided into shares (Martinelli 1977, p.56)—and the Dutch *rederij* and German *reederei* in the North Sea. A typical arrangement would have one partner responsible for sailing the ship and selling the cargo while the other partners contributed capital and goods and shared in the profit or loss according to their contribution. In some cases, partnership shares in a *loca navis* were transferable. However, because such partnerships were generally dissolved after the voyage was completed, there was no permanent equity capital stock undermining the need for share trading. This begs the question: Is a permanent equity capital stock an essential feature of joint-stock organization?

Using a different perspective, it is apparent that a permanent stock of equity capital did not require joint-stock organization. To see this, consider another precursor of the joint-stock company, the enlarged family partnerships of which the Fuggers of Augsburg from the 16th and 17th centuries are an example (Parker 1974, p.554). The Fugger partnerships featured a permanent capital stock, the *corpo*, that was advanced by the family partners. Shareholders in the *corpo* participated in the profit and loss of the company. Additions to capital, the *sopracorpo*, were raised either from partners or from outsiders, through the use of deposits with an insured return. Under the scholastic treatment of the triple contract, interest was permitted on these deposits. Payments on all *sopracorpo* deposits were made before any payments were made to the *corpo*. While similar to the use of common stock and bonds used by the modern corporation, this form of business arrangement was still a family partnership, not a corporate entity with transferability of shares.

The importance of corporate status to the evolution of equity capital organization during the 16th century was captured by Harris (2000, p.39):

> In the second half of the sixteenth century and during the seventeenth century, the corporation, a familiar legal conception, increasingly began to be used for a new purpose. Employed since medieval times for ecclesiastical, municipal, educational and other public and semipublic purposes, the corporation or, as it was often called at that time, the body corporate or body politic, was increasingly used for profit-oriented organization of business. There had been other, earlier, business associations such as guilds, but these had considerable social elements, and served as fellowships or brotherhoods which controlled and ritualized whole aspects of their members' lives.

The 16th century marks the gradual emergence of the joint-stock company in northern Europe to accommodate the demands for equity capital for funding voyages to the far-flung regions that were progressively opened up to competitive trade during this period. While the corporate structure of a regulated company was suited to travel by Dutch merchants trading to the Baltic or English merchants trading to Calais and Antwerp, the capital requirements, associated commercial risks and length of voyage were larger and longer for voyages to new frontiers in West Africa, the Levant, Russia, North America and the Orient.

## Early English Companies

English and Dutch joint-stock companies emerged during the 16th and 17th centuries to deal with the need for larger stocks of equity capital to be invested in risky ventures for long holding periods.[3] For a variety of geographical, political and social reasons, developments in Holland did not parallel those in England. Harris (p.39) described the situation in England as follows:

> Prior to the sixteenth century, a number of groups of merchants such as the Merchants of the Staple and the early Merchant Adventurers traded with nearby continental ports, but these were associations of individuals with no formal legal basis, neither incorporation nor even a royal franchising charter. The novelty of the sixteenth-century corporation lay in the combination of specific business purposes with a formal corporate form of organization and the fact that many of these new corporations reached beyond Western Europe.

Distinguishing these early joint-stock corporations from regulated companies is revealing. Both types of companies were incorporated during the 16th century, with the Merchant Adventurers—a regulated company—being the first to receive a charter in 1505. Charters were not permanent, being granted only for a number of years, and were subject to a possibly contentious renewal process.

Continuing a tradition reaching back to the Dark Ages, granting of charters, licences, letters patent, deeds to land and the like was an important source of revenue for the English crown. By generating payments before, during and after the Crown granted a charter, the chartering of for-profit corporations could be lucrative at a time when 'no taxation without representation' was a politically important consideration for the absolute monarchy. In addition to bullion, payments could be made as loans of goods in kind. The companies would also help cover the Crown's expenses, such as maintaining embassies and fortifications overseas (e.g., p.42). In some cases, a more important motivation for the granting of corporate charters was to assist in the ongoing international conflict and competition that characterized Western Europe during this period. The potential profitability of ventures to the newly opened seaborne trading areas in the Americas, West Africa and the Orient created social urgency to rally national resources to assist in furthering 'English interests'. Leaders in both the mercantile and political establishments were important motivators and contributors of equity capital to the early joint-stock ventures. Queen Elizabeth I herself took a share in some of the slave-trading voyages by John Hawkins to Guinea in the 1560s and contributed ships to these ventures.

Only some of the early joint-stock ventures were able to secure charters conferring corporate status. In most cases of incorporation charters granted by the Crown, a monopoly on trade to some geographical area was conveyed. Over time, interloping on the monopoly privilege could legally occur for a range of reasons, such as explicit provisions in charters and special permits issued by the Crown (Hecksher 1955, v.1, p.407). Especially under James I, the sale of further privileges to favored merchants of the Crown allowed interlopers to infringe on a monopoly privilege. This led to a decline in value of this royal privilege and to the Statute of Monopolies in 1623. The legal rationale for this statute was that only an act of Parliament could confer certain privileges. Harris (p.46) described the context as follows:

> The Statute of Monopolies of 1623 was passed during one of the peaks of the long conflict between the early Stuarts and the Parliament and common-law judges. The original aim of the Statute of Monopolies, as designed by the dismissed Chief Justice of King's Bench, Edward Coke, was to deprive the King of his power to freely sell new monopolies. The passage of the statute was intended to block an alternative source of income and force the King to turn to Parliament for permission to raise more taxes.

Unfortunately, the statute had numerous loopholes that allowed Charles I to continue the practice of granting monopolies, usually in the form of incorporation. This exacerbated long-standing disputes with Parliament and contributed to the beginning of the Civil War.

Despite being over a century old, the three-volume work by Scott (1910,1912) is still the essential secondary source on English joint-stock companies before 1720. Scott (1910, p.15) provided the following insight into the emergence of the joint-stock company in England:

> The appearance of the fully constituted joint-stock company [in England] was the product of two different lines of development . . . on the one side, there were the diverse forms of medieval partnership; and, on the other, the organization of corporate activity, which originated in the gild. The former practice effected a synthesis of the capital, owned by a few persons, but the undertaking, started in this manner, was temporary in its nature, and no lasting plans could be made for its continuance. Moreover, should events require the utilization of considerable resources, it would be necessary to introduce a large number of partners, and the medieval *societas* had not a sufficiently elaborate organization for the government of an extended membership. Yet the necessary system had been developed in the gild-merchant and the early regulated companies, and it only required the stimulus of a suitable occasion to graft the company organization on to the partnership.

With this background, Scott identified the initial emergence of the joint-stock company in England (p.15):

> The precise date, at which this union [of medieval partnership and gild corporation] was effected in England, was conditioned by a number of circumstances connected with the religious, social and industrial condition of the country. The progress of maritime discovery was extending foreign trade at the commencement of the sixteenth century, and it was in this branch of commerce that capital was of most importance. But the attitude of the Church to capital was on the whole not a progressive one . . . In England, in many respects, the Reformation, in liberating capital from the position it had occupied under the Church, forced this country to work out the corporate organization of capital independently.

Though there may have been precursors of the joint-stock company in Renaissance Italy, Scott correctly recognized that a range of religious, social, geographical and political factors played an essential role in the emergence of the early English joint-stock companies. For example, Oldland (2010) documented the finances of the early Tudor merchants.

Though primary sources on the early English joint-stock companies are markedly better than those from Renaissance Italy, the historical record is still conditioned by sources that have survived. In particular, Scott claimed the first two joint-stock ventures in long-distance trade were formed in 1553: one for trade with Africa, the Guinea Adventurers; and one with an original title of "The mysterie and companie of Merchants adventurers for the discoverie of regions, dominions, islands and places unknown" that came to be known as the Russia or Muscovy Company. Of these, the Russia Company is identified by Scott (1910, p.17) as being "the first English joint-stock company of importance" due to “some corporate character and fixed methods of procedure in the conduct of business”. More precisely, the Russia Company was the first venture to later obtain a charter conferring corporate character with a governance structure similar to that of a regulated company. “At first there was to be one governor, and this position was to be held by Sebastian Cabot for life” (p.20). Such was the character of the separation of ownership and control in the early joint-stock companies.

The separation of ownership and control in the modern limited liability corporation with autonomous, exchange tradeable shares requires complex accounting methods, especially internal and external audit procedures. Though evidence for such procedures stretches back to antiquity, the commercial and legal context is decidedly different. Accounting historians conventionally identify the 20th century with the introduction of ‘managerial internal audit’—in which the internal audit was integral to the management process and more than just ‘policing’ of financial and compliance items (e.g., Brink and Witt 1982; Flesher 1977). Only the most adventurous accounting historians seek roots in the 19th century, such as Boockholdt (1983) for American railways and Spraakman (2001) for the Hudson’s Bay Company. In contrast, economic and financial historians detail various aspects of “agency problems” in the early joint-stock companies and the various methods developed to deal with such problems. For example, Carlos and Nicholas (1990) identified contracting methods and hiring practices as effective mechanisms used by the Hudson’s Bay Company in the early 18th century. Chartered in 1670, the Hudson’s Bay Company had headquarters in London, with outputs along Hudson’s Bay bartering goods in exchange for furs, a challenging environment for both external and internal audit.

In focusing on the procedural elements of managerial internal audit, accounting historians fail to establish a useful connection to the earlier methods of dealing with agency problems. For the early joint-stock companies, Carlos and Nicholas observed: “Two features of the external environment are important in determining profitability: the cost effectiveness of monitoring, and the ease with which managers may engage in private trade. Both of these factors differed widely among the chartered companies and may help explain differing company successes” (p.859). In particular, the governance structure of the Russia Company generated “very numerous complaints of the almost complete failure of the governor and assistants . . . to exercise control over its factors in Russia” (Scott 1910, p.68). While drunkenness and shirking were problems, trading commodities on one’s own account at the expense of the company was usually the most serious problem. Losses arising from the ‘private trade’ of managers, factors or agents operating in the foreign market were a concern for shareholders in all the early joint-stock companies organized for long-distance trade. However, while effective administrative mechanisms for audit and control in the Russia Company were weak or absent, the Hudson’s Bay Company did have some success. Unlike the Hudson’s Bay Company, the Russia Company also served an essential national service in providing gunpowder, timber, cordage and pitch on favorable terms that were essential to Elizabeth I and later English monarchs. This may have created a commercial environment less restrictive to private trade.

Both of the early ventures of 1553 were involved in opening up long-distance trade to new territories and were started on mercantile speculation, without a royal charter. Only the Russia Company was able to secure a royal charter in 1555, granting a monopoly on trade with Russia and any other territories to be secured by the company's adventures. The Russia Company received preferential treatment from the Russian czar and an open willingness to engage in trade. This affected the organization of English joint-stock ventures later in the 16th century. Given the exclusive privileges contained in the Russia Company charter of 1555, the 'Northwest Company'—the Colleagues of the Fellowship for the Discovery of the Northwest Passage—had to obtain a license from the Privy Council to permit Martin Frobisher to sail with two small ships and a pinnace in search of a northwest passage to the Orient in 1576. Though unsuccessful in finding either a route or trading opportunities, the potential for a gold mine discovered in 'Baffin Land' was enough to have the assets and liabilities of the first voyage transferred to the second voyage, subject to conditions.

The Northwest Company is of interest for several reasons. In particular, none of the four voyages that took to sea between 1576 and 1583 was able to return a profit, and the company was wound up with equity capital losses for the adventurers. The company did not obtain a charter, though plans were drawn up for incorporation with similar governance structure to the Russia Company. Perhaps this did not happen because it was an added expense in a venture that was not generating profit. More importantly, detailed records of the venture have survived, enabling identification of the 'adventurers' who supplied equity capital (including Sir Thomas Gresham), the amount of capital subscribed and rules governing share ownership. Except in the case of death of an adventurer, shares were not transferable, but each voyage required additional subscriptions which enabled new adventurers seeking shares to join the venture; thus, there were 18 adventurers for the first voyage and 41 for the second. In addition, the process of funding the second, third and fourth voyages involved rolling the paid-in equity capital plus addition for losses into subsequent voyages, thereby creating a type of permanent equity capital stock. Whether this 'permanence' would have happened if any voyage was profitable, when there would have been a return of equity capital and distribution of profits, is unclear.

The Levant Company, also known as the Turkey Company, represents yet another set of circumstances influencing the early English joint-stock companies. Unlike trading ventures to newly discovered regions in North America and Guinea, English trade to the Levant and other areas of the Mediterranean did not commence in the 16th century. Cawston and Keane (1896, p.67) reported:

> [The] first feeble attempts [of the English] to trade in [the Mediterranean] date from about the year 1413, when it is recorded that 'a company of London merchants laded several ships with much wool and other merchandise to the value of £24,000 towards the western parts of Morocco. But some Genoese ships, emulous of this commerce, made prize of those London ships outward bound, and carried them into Genoa. Whereupon King Henry IV grants the sufferers reprisals on the ships and merchandise of the Genoese wherever they can find them.'

Whether this early venture was organized as a joint-stock company is unknown, though the amount of capital raised suggests such a possibility. In the 15th century, commercial trade in the Mediterranean was dominated by the Italian city states. With a history of commercial trade stretching back to antiquity, there were a host of competitors in this potentially lucrative trading arena. Cawston and Keane observed somewhat obscurely: "'letters of marque and reprisals on the bodies and goods' of powerful rivals could little avail in the hands of skippers unsupported by the prestige and resources of a corporate body" (p.67). Precisely how corporate status would assist in such ventures is unclear. Perhaps corporate status granted by a royal charter would provide the venture with a basis for military support from the Crown?

The historical record for ventures to the Mediterranean and the Levant is somewhat jumbled from this early 15th-century venture until a charter was obtained from Elizabeth I in 1581 for "The Governour and Companie of Marchantes of the Levant". Information about the period before the charter draws heavily on: (a) the 20-volume Latin source *Foedera*, *Conventiones, Litteræ, et cujuscunque generis Acta Publica inter Reges Angliæ et alios etc.* [Treaties, Agreements, Letters and Public Acts made between the Kings of England and others etc.] prepared by Thomas Rymer, the royal historiographer, and published between 1704 and 1713; and (b) the 14-volume work by Richard Hakluyt, *The Principal Navigations, Voyages, Traffiques and Discoveries of the English Nation,* published between 1598 and 1600 (Hakluyt 1885). Use of these sources requires some artful interpretation. While there is evidence of trade to the Levant "carried on at intervals" between the beginning and middle of the 16th century, it was Queen Elizabeth who gave the primary impetus to the creation of the Levant Company, initially sending an agent in 1579 to procure permission from the Sultan "for English merchants to resort freely to the Levant on the same footing as other nations" (Cawston and Keane 1896, p.68).

Having granted in the 1581 charter a monopoly on trade to the region for seven years, "Elizabeth either invested or lent as much as £40,000 [of the initial subscribed capital of £80,000], and her contribution came out of the treasure taken from the Spaniards by Drake, a portion of which had been given to the Crown" (Scott 1910, p.84). The initial company charter was granted to four named individuals—Sir Edward Osborn, Thomas Smith, Richard Staper, and William Garret: "Her Majesty therefore grants unto those four merchants and to such other Englishmen, not exceeding twelve in number, as the said Sir E. Osborn and Staper shall appoint to be joined to them and their factors, servants and deputies, for the space of seven years to trade to Turkey". Despite risks from Barbary pirates, the Spanish control of Gibraltar and a burdensome import duty, the company was "highly profitable". The restrictions on company membership led to calls to expand the list to include those previously engaged in the trade in Venice and elsewhere in the region. While the charter was renewed with some delay in 1592, Scott (p.88) indicated: "In March 1599 the trade was on a joint-stock basis, but in June 1600 a list was drawn up which shows that it was then a regulated body".

Attempts to characterize any of these early exercises in joint-stock ownership as seminal events in the history of equity capital organization would be incorrect. The Russia Company had initial difficulties and had to resort to calls on shareholders to the point where, in 1564, the original £25 subscription had been increased to £200. While, from this date, the company was able to carry on profitable trade until the end of the century, it was converted to an "ad hoc" joint-stock company in 1586 and to a regulated company in 1622. The Guinea Company can only generously be considered a joint-stock company, as it engaged in the practice of raising separate subscriptions for each voyage, making complete disbursements of capital upon return of the ships and sale of cargo. The instability in trade with Africa had companies being formed and dissolved until a joint-stock company with a permanent capital stock and a strong charter—the Royal African Company—was established in 1672, after the Restoration. Even this company converted to a regulated company in 1750 (Hecksher 1955, v.1, p.375).

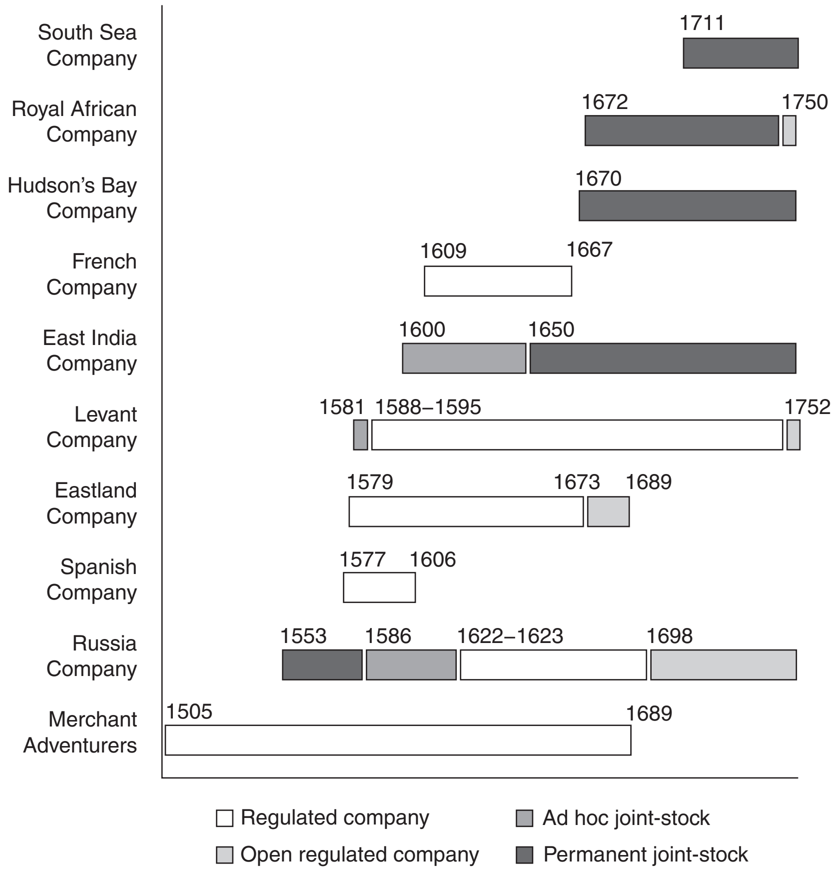


*Figure 5.3* Organizational Transformation of Major English Trading Companies, 1505–1760

*Source:* Harris (2000, p.52)

Much modern discussion surrounding the early English joint-stock companies considers only the arena of long-distance trade, e.g., Carlos and Nicholas (1996). Scott (1910, p.383) hinted at an earlier origin in the mining sector. A patent granted by Henry VII in 1485 identifies the "governors of the Mines Royal" being constituted, amalgamating the earlier system of "grant[ing] the privilege of discovering and working the Royal Mines within a certain district to some patentee for a limited period". Two of the earliest joint-stock companies not engaged in long-distance trade—the Company of the Mines Royal and the Mineral and Battery Company—both originated in mining. Both companies were granted charters in 1568, though both had conducted business for some years before that date. The Mines Royal was involved in silver and copper mining and manufacture, while the Mineral and Battery Company was involved in a range of mining and metallurgical activities including the mining of zinc ore, the manufacturing of brass and the milling of iron. The share ownership of both of these companies reflected a strong German influence. Hecksher observed that "it is very probable that these companies were influenced by the numerous and well-developed capital associations in German mining".

From the *Bulletin of the Business Historical Society* (Jan. 1929, pp.7–8):

> WE ARE indebted to Mr. E. A. S. Clarke, Secretary of the American Iron and Steel Institute, for calling our attention to an article in the 1901 *Transactions of the British Institute* which places the oldest joint-stock enterprise in the world at Domnarfvet, Sweden. It is the Stora Kopparbergs (Great Copper Mountain) Mining Company, deriving its name from the celebrated copper mine at Falun, where one of its plants is located. In 1896, the Company celebrated its 550th anniversary, dating from its oldest charter; and a deed for the transfer of shares in the Company dated 1288 is still in existence in the State archives.

The experience of the early English mining joint-stocks, and the Italian connection with English merchants involved in early joint-stock companies, reinforces the view that the roots of this form of business organization can be found in the experiences of various countries. These experiences range from the early Italian organizations, such as the *Casa di San Giorgio*, to the permanent capital associations of the wealthy continental European family partnerships, to the business relationships developed for long-distance trade. It is not surprising that the first English joint-stock companies retained some features common to other forms of business organization, such as the partnership and regulated companies. However, with the emergence of the Dutch and British East India Companies, the joint-stock form of business organization permitted a seminal transformation in commercial practice. This change was the beginning of exchange trading of company shares. This activity, a central feature of the modern limited liability corporation, did not emerge until much later than the chartered corporation. Similarly, limited liability in the modern sense was also not present.

Though the early joint-stock companies represented an important evolution in commercial finance, there were still significant differences between these early companies and the modern, publicly traded corporation (Baskin 1988, pp.201–2):

> The first British trading companies combined features that today would be associated with both partnerships and public corporations. As in a partnership, "most of the earlier companies probably began by being exclusive, in the sense that shares were sold amongst persons known to each other" (Scott 1910). Also, as in a partnership, the number of shares was fixed and liability was unlimited: investors were subject to calls whenever the firm needed additional capital. On the other hand, as in a modern corporation, managerial ranks distinct from ownership arose (that is, although recruitment appears to have been limited to current shareholders, the degree of management control exercised by a partner was not necessarily equal to the percentage of ownership, but became increasingly related to issues of knowledge, interest and ability). Tradable shares were an early development, and of course they came to play a crucial role in the growth of corporate finance. But these shares were originally intended only to facilitate exchange among known business associates and not to create securities to be sold on public exchanges (which in fact did not exist when the idea of shares was conceived).

At a more abstract level, the successful evolution of joint-stock shares depended on transferability, which, in turn, depended on methods of handling the

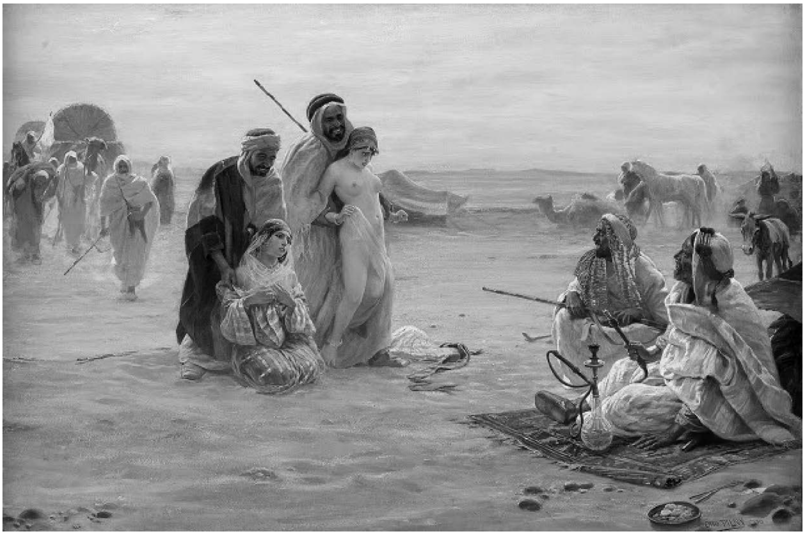

*Figure 5.4* Slave Market (1910) by Otto Pilny (1836–1936), one of a series on this theme

asymmetric information problems for passive shareholders surrounding the evaluation of company performance. Once the joint-stock company developed a permanent capital stock, such that assets were retained in the company after the end of a specific venture such as a voyage, this imposed considerable demands on the accounting systems used (e.g., Yamey 1949).

## John Hawkins and the Early English Slave Trade

Following the tradition of Scott (1910), much of the history surrounding the evolution of English equity capital organization during the 16th and 17th centuries focuses on 'institutional' issues such as the adoption by the joint-stock companies of corporate governance methods employed by the regulated companies and the guilds. Details of the charter, the number of shareholders, the amount of equity capital subscribed and the like have been painstakingly reported for various companies. Modern treatments have further abstracted the history to concerns about the early chartered companies being "efficient transactors or rent-seeking monopolists" (Jones and Ville 1996) and "agency problems in the early chartered companies" (Carlos and Nicholas 1990). The relevance of political, religious, geographical, social and, most importantly, moral influences has been largely forgotten. In cases where the social basis of commercial expansion during this period is specifically examined (e.g., Brenner 1972), the history is constructed around a comparison of the Merchant Adventurers, a regulated company, and the comparable joint-stock ventures involved in long-distance trading: the Russia Company, the Levant Company and the East India Company. Sordid details of other early English joint-stock companies are conveniently ignored.

Even careful scholar Harris (2000, p.43) maintained that "long distance trade to the outlying frontiers of Europe and to other continents, only entered by English traders during this period, was initially organized into joint-stock corporations. The first of these was the Russia Company (also known as the Muscovy Company) founded in 1553 and chartered in 1555". In only recognizing the Russia Company, Harris only included the evolution of the joint-stock company from the regulated company. The contribution from the medieval partnership identified by Scott was forgotten. It seems likely that commercial ventures involved in the line of development from the medieval partnership preceded the Russia Company, but records are too scant to permit a definitive conclusion. Scott (1912, p.3) provided some context:

> In a communication of the Sieur de Guerchy to the Duc de Praslin, dated February 24th, 1767, the origin of the Africa company is traced back to 1536. The allusion seems to be to three voyages undertaken by William Hawkins, father of Sir John Hawkins, to Africa and Brazil . . . There is no information to show whether these expeditions were at the sole charge of William Hawkins, or whether, although he owned the ship, others entered into partnership with him . . . In 1540 divers wealthy merchants of Southampton were engaged in the African trade and this expedition may be taken as the first syndicate or company for this venture.

It is now recognized that William Hawkins undertook voyages in 1530, 1531, 1532 and 1540, progressively extending trading activities to the west coast of Africa and Brazil. The reference to 1536 by the Sieur de Guerchy may be a reference to Hawkins' suggestion "to Cromwell that the King should finance him on further voyages of this kind and should take a share of the profits through the customs, but the proposal does not seem to have been adopted" (Bindoff 1982).

With this in mind, accurate "social history" for the early chartered companies cannot ignore the commercial ventures of John Hawkins (1532–1595), the second son of William Hawkins (1495?–1554?) and second cousin of Francis Drake (1540?–1596). Pollitt (1973, p.29) identified essential social context for the early slaving voyages:

> it is in the syndicates that supported the ventures, the hazy figures in London who had the gold to make them possible, rather than in smoking cannon, sinking ships and Hawkins's cries of treachery that the significance of England's first experience with slaving is to be found. Who were these men who were willing to risk large sums on such risky ventures? What were their motives? Did they have any idea of the possible impact of their investments?

Details of the financing for the early voyages and other commercial activities of William Hawkins are scarce. What is known is that, by the time the voyages were undertaken, William Hawkins was established as an important merchant in Plymouth, "exporting large quantities of tin and cloth to the Continent and importing goods from France, Spain and the Mediterranean". Over time, he became the most important merchant in Plymouth, being elected to Parliament in 1539. The outbreak of war with France in 1540 discouraged further peaceful seaborne trading ventures, and William Hawkins turned to the lucrative trade of outfitting the privateers who preyed on French trade.

The early English joint-stock companies were not homogeneous in character. In cases where a royal charter and a monopoly on trade were obtained, specific features of corporate status were conferred that varied according to the wording of the charter. However, some form of public benefit was required to obtain a charter, in addition to the political connections and equity capital needed to influence the granting process. Charters would typically restrict the number of company members, list the names of some or all of those involved, and provide details of the governance structure. Joint-stock companies involved in long-distance trade formed without a charter, such as the voyages of John Hawkins, were substantively different (p.27): "The most striking feature of those slaving voyages is that they were supported by unlicensed, joint-stock organizations, attracting increasingly wealthy and powerful backers as the profit potential of the enterprises became apparent". If the initial venture was profitable, the return of capital and division of profit at the end of a voyage meant such ventures relied on company members rolling distributions into the next voyage to obtain a semblance of a permanent capital stock. In the method of equitable sharing of profit and loss, such ventures were somewhat more of a capital association than the *commenda* or *societas maris*, even though the ad hoc character of governance did not rise to the level of 'corporate personality'.

The time frame for the three slaving voyages of John Hawkins begins in 1562: "when Hawkins was inspired . . . to secure modest financial backing for a voyage from England to Africa, from there to America and finally back to England on the famous triangle run inaugurated by his father" (p.27). Fortunately, some details of this voyage have survived:

> The first voyage in 1562 was a relatively minuscule affair, led by John Hawkins himself, organized and equipped by his elder brother William, and financed by a small combine of London business men and middle-range government officials.

While the full list of equity capital investors for each of the voyages is not available, it is known that, for the first voyage, "London merchants who took shares were Sir Lionel Duckett and Sir Thomas Lodge, while the bureaucrats were Benjamin Gonson, Sir William Winter and Mister Bromfield." Despite the loss of two ships loaded with hides to the Spanish, 'the venture proved to be a financial success and the profits secured explain in large part the impressive membership of the syndicate which supported the second voyage', which was mounted in 1564. "Indeed, the syndication for the 1564 voyage reveals a group dramatically larger than before" (p.28). The financial success of the 1564 voyage led to the formation of a third, and last, syndicate for a voyage in 1567, which "was simply a complete disaster". Though no records survive as to the exact distribution of profit and loss among the investors of the three voyages, it was estimated that the return on equity capital invested in the three voyages combined was between 40% and 60% (Scott 1910, pp.41–3).

## The Composition of the Investor Syndicates

The three slaving voyages of John Hawkins capture essential elements separating the various forms of joint-stock company appearing in the 16th and 17th centuries. Consistent with mercantilist objectives generated by competition between emerging monarch-led nation states, one feature of many joint-stock and regulated companies was the granting of a charter to pursue commercial activities with a public purpose. Unlike the Russia Company and the Levant Company, trade to West Africa in the 16th century did not have the approval of a head of state in the area such as a czar or sultan. Chartering an English company for trade to areas within West Africa would conflict with the interests of the Portuguese and could lead to the interdicting of English ships at sea. In the case of transport and sale of slaves in the West Indies: "Politically its consequences were momentous. The Spaniards guarded the trade to their Western possessions and more especially the Royal monopoly of importing slaves" (Scott 1912, vol.2, p.9).[4] Despite Queen

Elizabeth's likely participation as an investor in the second and third voyages, the Hawkins voyages did not have the formal recognition associated with a royal charter. As Pollitt (1973, p.39) observed: "aside from the profit motive there was a strong possibility that the trade was being used by the Crown as an instrument of its policies, through the collusion of government officials and merchants."

Having assumed the crown from her half-sister Mary in 1558, Elizabeth I (1533–1603) relied almost all through her reign on the advice of Sir William Cecil (1520–1598). The connection between Cecil and his "good friend and faithful ally", Benjamin Gonson (1525–1577), reveals "the link between the diverse elements which supported the slaving voyages". For, as Pollitt observed, "it is in the syndicates that supported the ventures, the hazy figures in London who had the gold to make them possible, rather than in smoking cannon, sinking ships and Hawkins's cries of treachery that the significance of England's first experience with slaving is to be found" (pp.29–30). In particular, the slaving syndicates consisted of two groups, one of 'merchants' and one of 'government officials': "Numerically the groups were roughly equal, but the government officials were far superior in apparent national power and influence. The merchants, however, . . . were in their own right influential men of considerable stature". As such, the composition of the equity capital syndicates that funded Hawkins' slaving voyages speaks profoundly about the connection between national policy, equity capital and the ruling class in 16th-century England.

Pollitt detailed what was known about the merchants, bureaucrats and Court officials involved in the first voyage (pp.27–8):

> The first voyage in 1562 was a relatively miniscule affair, led by John Hawkins himself, organized and equipped by his elder brother William, and financed by a small combine of London businessmen and middle-range government officials. The London merchants who took shares were Sir Lionel Duckett and Sir Thomas Lodge, while the bureaucrats were Benjamin Gonson, Sir William Winter and a Mister Bromfield. The original list indicates that there were other investors as well, but they have not been identified from the available sources.

The profitability of the first voyage led to a dramatic evolution for the second:

> Indeed, the syndication for the 1564 voyage reveals a group dramatically larger and more powerful than before. With the possible exceptions of Lodge and Duckett, all of the first group were included in the second, but there was a marked influx of London businessmen and high Court officials as well. The new London merchants included Sir William Garrard, Sir William Chester, Edward Castlyn and probably Castlyn's partner, Anthony Hickman. If the Spanish Ambassador is to be believed, the ubiquitous Italian, Benedict Spinola, who had extensive business interests in England, was also a subscriber. The Court officials

> were Lord Clinton and Saye, who was the Lord Admiral, Sir William Cecil, the Queen's principal advisor, Lord Robert Dudley, who was created Earl of Leicester in 1564, and the Earl of Pembroke. Even Queen Elizabeth herself is listed as one of the adventurers in the most reliable source.

There is evidence that the significant profit obtained from the second voyage led to much of the syndicate from the second voyage taking shares in the disastrous third and final voyage, together with some new investors.

The merchants were a diverse group, with different geographical roots. However, the "great common tie of these merchants is the city and its economy, for all of them began their business lives as members of the various Livery Companies. It was in this traditional form of enterprise that they made fortunes which enabled them to invest in and become leaders of the novel joint-stock forms of organization that appeared during the middle decades of the century" (p.30). Only Lodge was not involved in the cloth trade, having risen to an important position in the Grocer's Company. Given that such members of the Hawkins equity capital syndicates were successful and important members of regulated companies, taking a leading role in an early and risky joint-stock venture seems incongruent (p.31):

> Exactly how the merchants became involved in limited liability companies is a difficult question, but they all did to the extent of risking their entire fortunes. Lodge is a good case in point. For twenty years he operated successfully as an archetypal London grocer and wool merchant; then suddenly in the 1550s he began investing in the new Russian trade, first taking shares in the Muscovy Company. Within a decade he became so active and invested so heavily that he emerged as governor of the company. By 1555 he expanded his interests in the opposite geographic direction, engaging in the Barbary trade, which apparently led him eventually to invest in the embryonic Guinea trade to West Africa.

There were other merchants in the Hawkins syndicate who were even more deeply involved in the emerging 16th-century English joint-stock companies. Several of the merchants involved were also important political figures. In particular, Lodge, Duckett, Chester, Gerrard and Heyward all served as Lord Mayor of London, with some also serving in Parliament. Among others, Lodge was an influential advisor to Queen Elizabeth.

Of the second group of investors (p.34):

> the Crown officials, must be sub-divided into sections of bureaucrats and Councillors to determine the true construction of the syndicates. Of these two subgroups the smallest and least powerful was that of the bureaucrats, but it was vitally important to the formation of the slaving companies. It consisted of Benjamin Gonson, Sir William Winter and William Bromfield. Because of their administrative positions, mercantile backgrounds and

> close contacts with the Crown policy makers, they formed a keystone upon which the Hawkins syndicates were built. They were, quite simply, the link between the diverse elements which supported the slaving ventures.

Of the bureaucrats, the most significant was Benjamin Gonson, "a good friend and faithful ally" of Sir William Cecil. As such, "Benjamin Gonson was not only the undisputed head of a major government department, but also a wealthy merchant and valuable ally of Queen Elizabeth's principal advisor" (p.35). Continuing the work of his father, Gonson's bureaucratic career was intimately tied to the Admiralty and stretched back to Henry VIII. In contrast to the bureaucrats:

> Little needs to be said about the Councillor sub-group of the Crown officials. The power and prestige of Sir William Cecil during Elizabeth's reign is common knowledge. William Herbert, first Earl of Pembroke, was nearly equal in stature to Cecil in the 1560s. He was described in the preceding decade by the Venetian Ambassador as "the chief personage in England," and his involvement in the slave trade seems to have distressed the Spanish more than that of any other investor. Robert Dudley, Earl of Leicester, was probably less influential than Cecil or Pembroke, but he is certainly too well known to require a listing of his offices and evaluation of his power. Lord Clinton and Saye, later Earl of Lincoln, was Lord Admiral and a Privy Councillor to both Mary and Elizabeth, a lifelong friend of Cecil, and has been too long ignored by historians. He was the first high government official to involve himself in the African trade by lending Royal Navy ships to the Guinea adventurers in the 1550s, and it is hardly surprising that he emerged as prominent in the slaving syndicates. Together, these men constitute as powerful a group as could have been brought together for any purpose in the early years of Elizabeth's reign.

Pollitt made the following insightful observation about the social and political aspects of the early English joint-stock companies (p.40):

> what [the Hawkins voyages] and numerous joint-stock ventures may have accomplished was to mingle the merchant and official classes in a profit-oriented melting pot. This did not, of course, make England a classless society, but it did help to frustrate the emergence of a "Hidalgo spirit," the legendary fatal flaw of Spain. It furthermore kept channels of communication open between at least part of the ruling nobility and the business classes, and made the government sensitive to a degree matched only by the Dutch to the aims and aspirations of the business community.

Though the historical context is decidedly different, similar comments apply to the connection between prominent equity capitalists and 'the ruling nobility' in modern society.

**EQUITY CAPITAL IN THE 'NEW WORLD'**

Super (1979, pp.269–70) detailed the equity capital organization used by the merchants of Quito in the Spanish American colonies in the 16th century.

Merchants in 16th-century Quito organized their ventures in ways similar to merchants in other parts of the Spanish New World. A few acted independently, using their own capital to buy and distribute goods. Through careful use of powers of attorney, promissory notes, and letters of credit, individuals could manage extensive financial enterprises. Few traders acted alone, however, because of the capital requirements of long-distance trade. They usually assumed the responsibility for organizing ventures, then recruited capital from different investors, all without the formal agreement to a partnership. Profits for the investor were usually set at a percentage of the investment or a percentage of the total profits of the investment. Agreements of this type covered most commercial needs, from buying and selling to carrying gold and performing specific services. Commercial needs that were regular features of trade eventually had set percentage costs. The carrying of gold to Panama, for example, usually cost 7% of the value of the gold. Another form of commercial organization was the company (*compania*). Companies were not restricted to trade, but they were used more frequently in trade than in other endeavors. From the first days of colonization, companies had aided Europeans' commercial objectives. Quito companies had their origins in the *commenda* and *societas* agreements that were so important to the commercial life of the Mediterranean. Instead of using the terms *commenda* and *societas*, Spaniards adopted the comprehensive term *compania* for their New World endeavors. The organization of companies was straightforward. Two or more individuals contributed capital or labor (at times a combination) to a specific venture for an agreed length of time. Almost invariably, partners divided profits equally after the return of the principal. Several other conditions were made a part of the contracts, all of them designed to ensure that the partners fulfilled their responsibilities.

## C THE CREATION OF THE DUTCH EAST INDIA COMPANY (*VOC*)

### Early Dutch Companies

Building on results from much earlier studies (e.g., van Dillen 1935), knowledge about Dutch equity capital arrangements in the 16th and 17th centuries has been substantially improved by recent contributions of Oscar Gelderblom, Joost Jonker, Abe de Jong and others. The 16th- and 17th-century development of the joint-stock company in the Low Countries differs from the English experience. Political, geographical and religious considerations played a significant role in this divergence. The economic and financial importance of Antwerp until later in the 16th century would seem to favour an earlier development of joint-stock arrangements than occurred in Amsterdam. However, geographical, political and military developments subverted this outcome:

> In 1581 the seven United Provinces of the Netherlands declared their independence of Spain. As the intrepid Dutch sailors ventured out from their homeland they met not only the ships of their old master, Philip II, but those of the Portuguese as well. Since the government of Portugal had just fallen into the hands of Philip II the Dutch ships could expect no more consideration from Portuguese than from Spanish vessels. Notwithstanding the manifest dangers the prospects of obtaining the coveted products of the Portuguese colonies inspired the Dutch to such a great extent that in 1595 Bernard Ereckson sailed to the west coast of Africa, at that time usually called Guinea (Zook 1919, p.136).

The freeing of Dutch commercial interests from the control of the Spanish crown meant that previously forbidden areas, especially in America and Africa, were now open to those willing to run the gamut of risks. Longer round-trip voyages; competition from English and French interlopers in the Spanish and Portuguese spheres of influence; and risks from pirates, privateers and foreign forces combined to compel the use of alternatives to the traditional '*commenda*'-based methods of organizing equity capital.

As Gelderblom et al. (2011, p.34) observed, the 1580s marked a turning point in the scope of Dutch commercial activities and the associated organization of equity capital:

> Until the 1580s merchants in Holland had largely concentrated on trade between the Baltic and France, Spain, and Portugal. This trade was organized by individual merchants, small family partnerships, and shipping companies or *partenrederijen*. It is tempting to view these shipping companies as a distinct legal entity, but the term *partenrederij* is a nineteenth-century invention. The underlying contract was a partnership with a specific purpose, in this case the exploitation of a ship, and particular only in the arithmetical division of shares (½, 1/4, 1/8, etc.). The accounts of shipping companies were settled after a specific trip or after a trading season, following which participants were free to reinvest or not. As with all specific-purpose partnerships, the partners were jointly and severally liable for debts related to the purpose of the company, with one key exception. Any loss of cargo would be spread over all freight owners, while a total loss of the ship would free all shipping partners from any remaining claims on the company.

Partnership arrangements used by the Dutch in the Baltic trade were strikingly similar to the *commenda* arrangements used by the medieval and Renaissance Italian seafarers. However, the seaborne trade to Africa, America and Asia posed decidedly larger and more complicated risks than the traditional Dutch Baltic trade. In addition, the Dutch commercial ventures originated from an aggregation of provinces requiring political leadership to bind the various provincial interests to achieve a common goal. This process was part of a much larger political and social struggle for Dutch autonomy from Spanish Hapsburg rule. This struggle commenced in 1572 when Holland and Zeeland broke from direct Spanish rule.

The importance of the *VOC* to the evolution of equity capital organization has diverted modern attention from other 16th- and 17th-century Dutch commercial ventures, especially in West Africa and, to a lesser extent, the Americas. The West African trade reveals the importance of geography in the development of equity capital organization (Gelderblom et al. 2011, p.35):

> Following the fall of Antwerp in 1585, Amsterdam emerged as the new long-distance trade centre in the Low Countries. Antwerp merchants migrated north and continued their trade with Russia, the Levant, and Africa from the Dutch port. The Russia trade continued to be dominated by Antwerp firms, and the earliest voyages to Genoa and Venice in the 1590s were also organized by Flemish companies. Merchants in the long-distance trade were mostly left to their own devices, but to support the Levant trade the government sometimes supplied arms to individual ships, and it negotiated commercial privileges with the Ottoman sultan. The same was true for the Atlantic world. The early sugar expeditions to the Canaries, Madeira, and Brazil and the first voyages to West Africa were run by special-purpose partnerships, and the salt trade to the coast of Venezuela was done by shipping companies.

The record of these early Dutch overseas ventures is unlike the French, in which "'much of the seventeenth century French traffic is missing' . . . A large part of France's slave trading was then clandestine, conducted by interlopers challenging royal monopoly companies" (Geggus 2001, p.120). In comparison, the Dutch evidence indicates equity capital organization somewhat similar to that used in the English expeditions of John Hawkins, albeit without direct royal involvement (Gegus 2001, p.120):

> Between 1593 and 1598 at least 30 ships sailed to West Africa from Amsterdam, Enkhuizen, Hoorn, Rotterdam, Middelburg, and Delft . . . Surviving accounts reveal that investments in the African trade were typically made for one voyage, with the capital raised in advance and spent on the ship, its equipment, crew, armament, and merchandise . . . A small number of partners coordinated the expedition, for which they received a small fee. Upon the return of the ship the same men notified the other participants, sold the cargo and sometimes also the ship, and distributed the proceeds among all their fellow investors.

As Riemersma (1950, p.35) observed about this period: "merchant associations with a government charter occupied a relatively minor position in Dutch trade as a whole. While English traders became to a large extent incorporated into large associations with exclusive rights, the bulk of Dutch trade remained in the hands of an immense plurality of small firms and partnerships, operating without any explicit sanction from the state".

In addition to competition from French and English interlopers, the early Dutch voyages to West Africa revealed considerable information about the potential opportunities to 'despoil' "the Portuguese [who] had long occupied the trading points along the coast, and had erected forts and factories wherever it seemed advisable for the purpose of defense and trade" (Zook 1919, p.35). In turn, it was early Dutch trade with Africa that instituted changes to the organization of equity capital that fostered the development of the *VOC* (Gelderblom et al. 2011, p.35):

> The early success of these early African companies quickly raised concerns about increasing competition. In 1598 the eight companies then trading between Amsterdam and Africa decided to merge into a General Guinea Company so as to avoid competition, as director Jacques de Velaer explained to shareholder Daniël van der Meulen. The new company maintained the governance structure of the previous companies and organized single voyages only. These ventures were all private enterprises, with little or no government involvement. The various companies sailing to Africa armed their own ships and sailed in convoy whenever possible; government support was initially limited to naval escorts in European waters for incoming and outgoing ships.

Similar to later incentives provided for the formation of the *VOC*, until 1598 the companies were exempted from the customs duties that were levied by the admiralty boards that ran the navy. The merging of the companies signaled that a regular trade and profit was sufficient enough that contributions through customs duties could be levied. From this point, trade to West Africa became connected to the colonization activities of the Dutch in the West Indies and America. "The Dutch realized that the African trade was indispensable to their West India colonies as a means of supplying slave labor. Hostilities, therefore, continued against the Portuguese who still had possession of the principal part of the African trade" (Zook 1919, p.137).

Following the pattern used in the organization of the *VOC*, the Dutch government relied on commercial interests, supplemented by support from the state, to spearhead national objectives in colonization and empire expansion. In 1611, the Dutch made a treaty with a native African prince and gained Mauree, in modern-day Ghana. In 1612, Fort Nassau was erected at this site. In 1617, Dutch merchants bought the island of Goree at Cape Verde from local natives, and four years later, in 1621, the Dutch West India Company was formed. The charter for this company included the West Indies, New Amsterdam and the west coast of Africa. In 1625, government support for this venture resulted in the Dutch making a "vigorous attempt" to capture the main Portuguese African stronghold at St. George d'Elmina, a location in the Gold Coast that had been under Portuguese control since 1481. In this effort the Dutch were unsuccessful. However, in 1637 Prince Mauritz of Nassau, accompanied by 1,200 fighting men, succeeded in capturing this important Portuguese trading base.

Recalling that the history of 16th- and 17th-century joint-stock companies in England followed a zigzag path between joint-stock and regulated company organization, a similar pattern is observed with one of the two emerging and important Dutch joint-stock trading companies. In 1638, the Dutch West India Company abandoned its trading monopoly. As with the English joint-stock companies that converted to regulated companies, such as the Levant Company, the directors of the Dutch West India Company felt that sharing the expenses and risks associated with trade by opening up the protected areas to other merchants and collecting fees for trading in those locations would be a more cost-effective way of managing the considerable expenses associated with the Dutch colonial expansion in the Americas and West Africa. With the passage of the Articles and Conditions in 1638 and the Freedoms and Exemptions in 1640, the Dutch West India Company allowed merchants of all friendly nations to trade in the relevant jurisdictions under Dutch control, subject to a 10% import duty, a 15% export duty and the restriction that all merchants had to hire West India Company ships to carry merchandise.

## The Dutch East India Company (*VOC*)

As Gelderblom et al. (2012) observed, the Dutch East India Company (*VOC*) has achieved almost mythic status among those searching for 'institutional innovation' that led to the 'modern corporation':

> The intercontinental trading companies set up by the British and Dutch around 1600 are generally considered key institutional innovations because of their corporate form . . . They pioneered features which later became textbook characteristics of modern corporations: a permanent capital, legal personhood, separation of ownership and management, limited liability for shareholders and for directors, and tradable shares.

Leaving aside the difficulties of claiming share 'trading' for the English companies, the basis of this claim is stated as follows (Gelderblom et al. 2012):

> The success of these trading companies in spearheading European colonization is generally associated with the competitive edge lent by their particular corporate form, which in turn counts as an example of the superiority of Western legal traditions over those in China or the Islamic world . . . The new corporate features are usually seen as purposeful adaptations of existing legal forms to the challenges of Europe's overseas trade with Asia, notably the large amounts of capital required, the long duration of voyages, and the increased risks along the way . . . They are also regarded as closely related to each other, a logical set making up a winning formula. This interpretation rests heavily on work by legal scholars seeking to unearth the roots of concepts such as limited liability and legal personhood.

Significantly, Gelderblom et al. correctly recognized the difficulties with such claims:

> There are two major problems with [this interpretation]. First, for a long time the dominant British and Dutch companies faced identical challenges,

> but differed in their adoption of the associated legal solutions. By the early 1620s the Dutch East India Company [(*VOC*)] . . . possessed transferable shares, a permanent capital, and limited liability for owners and managers . . . This contrasts with the English East India Company (EIC, founded in 1600), which introduced similar features only during the 1650s . . . Second, while this particular lag may relate to political factors, notably the need for limited government . . . the time it took for the *VOC* to assemble various features shows that they did not form a coherent logical set from the start, but instead emerged one-by-one in response to particular circumstances, not the general challenges associated with the Asian trade. The company had transferable shares and limited liability for shareholders from the outset, but obtained a permanent capital only in 1612 and limited liability for directors in 1623.

While this is an insightful recognition of the importance of historical context, there is inadequate recognition that the EIC did not develop exchange-traded shares until the end of the 17th century (why?). This interpretation also omits the importance of 'public purpose' in the chartering of the *VOC* and related English joint-stock ventures. Following a practice common in the early trading and colonization efforts of the Iberian states, commercial interests often spearheaded such developments. The symbiosis of commercial interests and national foreign policy objectives cannot be ignored. Finally, the need to renew the charter after 10 years and provide a settling of accounts at that time (how?) is another decidedly 'non-modern' feature of *VOC* equity capital organization.

That the earliest exchange trading in joint-stock shares originated in Amsterdam is a credit to the ingenuity and commercial acumen of the Dutch merchants of that era. Yet, the creation of the primary vehicle for the emergence of exchange trading of joint-stock shares, the 'Dutch East India' company, was due as much to statesmanship as entrepreneurial initiative. The *VOC* emerged shortly after the creation of the purely private *Compagnie van Verre*, for the purpose of engaging in the Dutch East India trade. There followed quickly the creation of at least 10 similar companies, centered in different Dutch provinces, particularly Holland and Zeeland. Collectively these early companies were known as the *voor-compangnieen*. The competition among these companies proved to be "violent and not exclusively commercial" (Hecksher 1955, v.1, p.356). In 1602, the States General, under the leadership of the Dutch statesman Johan van Oldenbarnevelt (1547–1619), was able to unify these various companies into the *Vereenigde Oostindische Compagnie* (*VOC*), commonly known as the Dutch East India Company.

The negotiations leading up to the creation of the *VOC* indicate that a variety of possible organizations were considered (Hecksher 1955, v.1, p.360). While having sufficient legal and organizational structure to facilitate the emergence of trading in company shares, the final product was uniquely Dutch, though numerous elements were similar to English joint-stock companies. Consistent with mercantilist objectives behind the English joint-stock trading companies, there was the element of monopoly on trade granted by state charter to further national interests. To facilitate the creation of the *VOC*, the company charter passed by the States General granted a monopoly on the India trade for a period of 21 years, conceived as a succession of ventures, with an initial term that was to be 10 years. Even though another provision of the charter provided conditions for the shareholders to demand the return of capital with interest, in 1612 this provision was declared void by the company's governors and a decree issued that shares were to be cashed in through open sale on the Amsterdam exchange.

Permanence of the equity capital stock is an essential prerequisite for exchange trading of shares (e.g., Blair 2003). The reluctance of the company to permit the withdrawal of capital is understandable. The need to make large fixed investments involving expenditures on troops, making fortifications, and paying gratuities to gain agreements with foreign princes meant that a large portion of initial capital investment was not readily recoverable. As Gelderblom et al. (2012) documented, ships sent to 'India' were often seconded there for long periods of time (see Table 5.3). However, the process by which an article of the charter was voided does reflect how much the internal organization of the *VOC* differed from the English counterparts. The administration of the company was not unified but, rather, contained six chambers organized on local lines. This roughly reflected the composition of the *voor-compangnieen*, with the Amsterdam chamber being the most important, followed by Zeeland. Elaborate arrangements provided for the sharing of costs and profits among the chambers. Needless to say, such a system was administratively chaotic.

The administrative problem created by the six chambers was countered by the almost absolute authority of the governors of the company, organized in a common assembly known as the 'Seventeen Masters'. In turn, the *VOC* charter ceded authority over the 'Seventeen Masters' to the Estates General and not shareholders (Gelderblom et al. 2011). With one vote from any smaller chamber, the strength of the Amsterdam chamber was strong enough to control the assembly. Within this framework, shareholders had no effective influence: "no statement of accounts was made by the management during the whole of the company's existence. Dividends were paid entirely at the arbitrary pleasure of the governors and on one occasion they even openly threatened to withhold payments altogether if shareholders showed themselves refractory towards their 'lords and masters' " (Hecksher 1955, v.1, p.366). Similar to the 16th- and 17th-century English joint-stock companies, the company maintained strong links with the government. Within the governors of the company appear a variety of important public officials, both municipal and from the States General.

Following the creation of the *VOC*, other joint-stock ventures were introduced, but only one, the Dutch West India Company, chartered in 1621, met with prolonged success, though there was also some trade in shares of a smaller insurance company. The East and West India Companies were anomalies within the fabric of Dutch commercial success of the 17th and 18th centuries. Even the success of the West India Company required considerable government involvement, with half the capital coming from the government and considerable government pressure being used to raise the other half from private sources. Unlike the *VOC*, which engaged in political and military efforts solely for commercial objectives, the West India Company was chartered with state objectives in mind. The charter granted more authority to the States General, and military functions

*Table 5.3* Overview of *VOC* Voyages 1602–1613

| | |
|---|---|
| *Ships departed from the Republic* | 92 |
| Lost on outbound voyage | –3 |
| Arrived in Asia | 89 |
| Stayed in Asia | –66 |
| Returned to Republic | 23 |
| *Returned to Republic* | 23 |
| Lost on inbound voyage | –1 |
| Too late to observe | –1 |
| Arrived in Republic without stay in Asia | 21 |
| *Stayed in Asia* | 66 |
| Lost in warfare | –7 |
| Lost due to shipwreck | –9 |
| Broken up | –2 |
| Other reasons for not returning | –17 |
| Lost on inbound voyage | –4 |
| Lost in Asia or inbound voyage | –39 |
| Too late to observe | –5 |
| Arrived in the Republic after stay in Asia | 22 |
| Probability of not arriving in Asia = 3/92 = 3.26% | |
| Probability of not arriving in Republic when no stay in Asia 1/(23–1) = 4.55% | |
| Probability of not arriving in Republic when stay in Asia 39/(66–5) = 63.93% | |
| Statistics on arrival in Republic without stay in Asia (21 observations minus 2 missing observations) | |
| Average 669.84 days | |
| Standard deviation: 209.62 days | |
| Minimum: 246 days | |
| Statistics on arrival in Republic with stay in Asia (22 observations) | |
| Average 1270.41 days | |
| Standard deviation: 245.39 days | |
| Minimum: 941 days | |

*Source:* Gelderblom et al. (2012)

*Note:* The other reasons for not returning are that ship stays in Asia permanently (8 ships), out of sight (2 ships), unknown (7 ships). Stayed in Asia is defined as ships having a duration of stay in Asia of more than one year.

were more in evidence. Perhaps for these reasons, of the only two Dutch company shares regularly traded on the Amsterdam exchange, West India Company shares were always far less important.

Gelderblom et al. (2011, 2012) provided numerous significant observations about the financing of the company, directors and shareholders in the *VOC*.

In particular, almost from the beginning of shares being exchange traded, a market value was established that shareholders could use to secure financing, such as for making a subscription payment. *VOC* shares were preferred collateral compared to municipal and government annuities. Another significant observation concerned the method of using short-term debt to finance voyages with long-horizon payback. Instead of obtaining more long-term financing, the company extinguished short-term debts using cash flow from returning ships. (Shades of Antonio the merchant in Shakespeare's *Merchant of Venice*!) However, this created problems for the smaller chambers and impacted the *VOC*'s ability to expand. "The dependency on circulating capital for finance thus formed a serious check on operations, let alone on expansion. Yet expansion was what the company needed" (Gelderblom et al. 2012, p.11). Similarly, "the directors' personal credit provided a vital ingredient to the early expeditions. They paid for supplies from their own purse and charged interest on these advances, or else obtained them with suppliers' credit" (Gelderblom et al. 2011, p.37).

In addition to methods of financing the *VOC*, Gelderblom et al. (2011, pp.39–40) discussed the terms set out in the charter to permit transferability of shares. Holland, a small country, faced considerable commercial, military and political difficulties in mustering resources to confront the Portuguese and other countries in seaborne trade with Asia. Unlike with more traditional seaborne routes to the Baltic and West Africa, the need for equity capital of long duration was paramount. Given that the initial contract was for 10 years, precise terms describing the process for transferring shares needed to be included in the charter to obtain the needed funds.

> Shareholders in the *VOC* received the right to have their money back on the presentation of full accounts for the first ten-year period in 1612 (article 7). These terms were not fundamentally different from the four-year turnover time of earlier expeditions to Asia, only longer. The longer timespan was probably the reason for defining a share transfer procedure, though the speed with which share trading developed after the *VOC*'s launch suggests that a demand for easy transferability of shares had manifested itself before.

As for the specific terms that were included in the *VOC* charter dealing with the transfer of shares: "Two articles defined exit rights. In addition to the right to sell shares stipulated in the preamble to the subscription register, shareholders were given a general exit right after the 1612 accounts (No. 7), while as we have seen the shareholders in the 1602 expedition could opt out (No. 9)."

# Appendix: Charter of the English 'East India Company' (1600)

The text of the Royal Charter granted by Queen Elizabeth to the East India Company is available at: http://www.sdstate.edu/projectsouthasia/loader.cfm?csModule=security/getfile&PageID=857407. This company was only a pale precursor of the British East India Company (BEIC)—the United Company of Merchants of England Trading to the East Indies—which was formed in 1708 by merging the East India Company with a rival. The BEIC was a cornerstone in the British Empire and played a critical role in many historical events—including the Great Bengal Famine (1770), the Boston Tea Party (1773), the First (1839–1842) and Second (1856–1860) Opium Wars and the Indian Rebellion of 1857. The BEIC is a classic example of the connection between national foreign policy objectives and joint-stock companies formed with royal charter subject to renewal. It was private armies controlled by the BEIC that led to British control over much of India in the early 19th century. The government effectively nationalized much of the BEIC with the Government of India Act (1858), though the company continued with reduced power and influence until the East India Stock Dividend Redemption Act (1873), which resulted in the winding up of the company.

The text of the East India Company charter (1600), in the fashion of legal documents of the era, was written over a number of pages without paragraphing. This renders the text difficult to read. Despite this barrier, there is considerable substance in the document. The beginning of the text names the 200-plus individuals that "shall be one Body Corporate and Politick, in Deed and in Name, by the Name of The Governor and Company of Merchants of London, Trading into the East-Indies". The intertwining of national and company objectives is specified as "they, at their own Adventures, Costs, and Charges, as well for the Honour of this our Realm of England, as for the Increase of our Navigation, and Advancement of Trade of Merchandize, within our said Realms and the Dominions of the same, might adventure and set forth one or more Voyages, with convenient Number of Ships and Pinnaces, by way of Traffic and Merchandize to the East-Indies, in the Countries and Parts of Asia and Africa, and to as many of the Islands, Ports and Cities, Towns and Places, thereabouts, as where Trade and Traffic may by all likelihood be discovered, established or had". The first governor of the company, "Thomas Smith, Alderman of London", is named, as are important committee members. Rules for company governance and much more are detailed.

## NOTES

1 The use of *commenda* is not standard, especially where the contract used in one specific locale is of interest. For example, Martinelli (1977), who examined early records by John the Scribe in Genoa, referenced the *accomandatio* and the *societas maris* and did not refer to the *commenda*. The *tractator* and *commendator* were referred to as *accomandatario* and *accomandante*. The use of *commenda* was popularized by Udovitch.
2 A number of sources make reference to joint-stock companies appearing as early as Roman times, being used in the financing of public projects and tax farming. More precisely, companies of *equites* ('knights') were used for collecting taxes, especially in Asian provinces, and in public works construction. However, while these early associations may have had some basic characteristics of the later joint-stock companies, such as a form of corporate personality, other features such as negotiability and transferability of shares were not present.
3 Bosher (1988, 1995) discussed the corresponding situation in France around this time.
4 It was not until 1672 that Charles II granted a charter of incorporation to the Royal African Company. The charter "included a monopoly on the slave trade between West Africa and the West Indies. [The Company] flourished for a while, experiencing its heyday in the 1680s, when it accounted for more than two-thirds of the slave deliveries to the Indies. Yet it declined rapidly after the Glorious Revolution as it could not get parliamentary ratification of its royal monopoly" (Harris 2000, p.49).