EMERGENCE OF CORPORATE CONTRACT SET, GOVERNANCE AND ACCOUNTABILITY: STANDING ORDERS OF THE EAST INDIA COMPANY, 1600 - 1621

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Emergence of Corporate Contract Set, Governance and Accountability: Standing Orders of the East India Company, 1600 - 1621
Corporate governance has become an attractive topic for academic research, especially after several cases of corporate scandals at the beginning of the 21st century. Since then, much effort has been put into improving existing and inventing new corporate governance mechanisms as well as increasing accountability of managers to their stakeholders. However, this debate is not embedded in the contemporary world. Since their beginnings, companies have tried to design structures that would reduce, if not eliminate, the inherited problem of conflicts of interest among various participants. Business historians have documented that the development of various organizational forms was a result of the constant struggle to write more and more efficient contracts between firms’ participants.

The East India Company (EIC) was a precursor of the modern corporation working in a globalized world. As in any other organization, a group of investors combined their efforts to carry out a common purpose—trading to the East—and the members elected officers to carry out day-to-day management. This paper seeks a historical perspective on the emergence and development of various governance mechanisms in the EIC. The period of the analysis relates to the first twenty-one years of the EIC, from the first rules written in the Charter of Incorporation to 1621 to the time, the Standing Orders of the EIC were published.

**keywords:** contract set, governance, accountability, East India Company
1. INTRODUCTION

There is no single, accepted definition of corporate governance, and the subject can be treated narrowly or more broadly. In the narrow view, corporate governance is restricted to the relationship between a company and its shareholders. This is the traditional finance paradigm, expressed in the *agency theory*, where the basic question is how agency costs can be reduced by using appropriate governance (incentive) mechanisms. According to principal-agent theorists (Eisenhardt, 1989), the decision between behavior-based and outcome-based contracts under conditions of complete information, outcome uncertainty, risk aversion of both principal and agent, goal conflict, task programmability, outcome measurability and length of agency relationship will determine the optimal contract.

On the other hand, corporate governance may also be seen as a web of relationships, not only between the company and the owners but also among other participants: employees, customers, suppliers, bondholders, directors, shareholders and others. In this sense, the question about corporate governance asks how to govern organizations so all participants find it in their own interest to do what is expected of them by the other members of the organization (Sunder, 2006). This approach considers not only the interest of shareholders but also the interests and rights of other organizational participants. In this setting, a well developed governance system will lead to the increased wealth for all participants, including the shareholders.

In analyzing a corporate governance system, one must understand the environment in which a company operates; the country’s legal framework; the local culture, history and organization of society; and the roles of the capital market and other active market forces. Thus, it is risky to classify governance systems into bad and good, developed and undeveloped, mature and immature because organizations in various countries operate in different environments with different economic traditions and cultures, so there can be no one solution to fit all. Moreover, as the environment in which companies operate changes, an adopted solution cannot remain effective for long and must be constantly adjusted. Thus, good governance is a constant struggle to design and redesign the organization’s alliances in response to
changes in the environment.

An extensive body of research has documented the role of the joint-stock companies and discussed the contribution of the structure of those companies in enhancing efficient allocation of resources. Economists have also discussed issues related to efficiency of a company’s structure in relation to the preceding form of a regulated company. Another stream of research discusses various forms of contractual arrangements within the early joint-stock companies, which allowed for better allocation of resources and a reduction in contracting costs.

As for all other organizations of that time, the primary sources related to the East India Company have provided examples of both efficient and inefficient mechanisms aiming at the reduction of transaction costs and often contradictory evidence on how successful the company was in enforcing contracts and designing mechanisms to reduce transaction costs. Although most of the primary records of the early years of the company are lost, it is possible to find support for both efficiency and inefficiency (Mirowski P, 1981; Irwin D., 1991; Anderson G. A., Tollison R. D.,1982; Jones, Ville, 1996, Hejeebu 2005).

The goal of this paper is to examine the control mechanisms that were designed and written down in the primary documents of the East India Company—the charter of incorporation as well as the Standing Orders—at the time of incorporation and twenty-one years later when the Standing Orders were developed “for better governing of the affaires and actions of the said Company here in England residing.” The Standing Orders issued in 1621 were the result of the company’s having gained enough experience with the joint-stock capital (the first joint stock was issued in 1613) to be able to define the main problems, design and codify solutions.

2. HISTORICAL BACKGROUND

For many centuries, goods from Asia were transported in large caravans in response to the demand from Europe, especially for silk and spices. Conflicts in the middle-east, including the crusades and the take-over of Constantinople in 1455 blocked these traditional land routes and awaken a search for alternative ways of trading of goods with India and China. With Vasco de Gama’s discovery of a new sea route, a new age of trade began. The first sea voyage to Asia in the 1496 brought mixed
results, but this did not discourage a group of merchants from planning new ventures.

On September 22, 1599, a group of 101 Londoners, merchants and gentry, including 23 members of the Levant Company, agreed to subscribe the capital necessary to mount a voyage to the East Indies. On September 25, they petitioned the Privy Council for a charter of incorporation, and the royal charter was issued on December 31, 1600, incorporating 218 persons as the Governors and Company of Merchants of London trading into the East Indies, and granting them a fifteen-year, renewable monopoly of all English trade to the east of the Cape of Good Hope. The Queen also granted the Company an exemption from customs outward for their first four voyages and permission to re-export bullion to a value of £30,000 in any one voyage. These privileges were renewed and expanded by subsequent royal decrees (Irwin D., 1991).

The purpose of the joint-stock arrangement was to allow investors to pool their capital, lease or purchase ships, hire crews and finance their provisions, and send the ships to Asia with the bullion to make purchases and English goods-mainly wool textiles but also minerals-to trade. Upon their return, the ships would bring Asian goods like pepper, cloves, nutmeg, indigo, silk, tea, and cotton goods, which brought high prices in Europe and thereby compensated the joint stockholders several times over for their expense and risk.

At first, the Company did not have a single destination: the trading and purchase of commodities in India took place in any port that offered appropriate facilities. After a voyage commenced, the company awaited the return of its ships before preparing for the next voyage. However, after the third voyage, realized returns increased the scale of the trade and led to a decision to send annual voyages before the results of the preceding one were known. After 10 years of experience in trading along
the South Asian coast, the company had acquired sufficient know-how and was ready to commence trade in India’s hinterland (Steensgaard, 1974, 170).

During the early years of the company, shareholders traded separate and terminable stock and behaved more like regulated company investors, committing money to one voyage only and awaiting its return before investing it in the next voyage. Thus, the EIC was more like a shipping concern, engaging in arbitrage with the large price differentials between the European and Asian markets, but not engaging in production. In 1609, the company sought a new charter and ended the policy of financing each voyage separately, so that stockholders’ funds were thereafter used for the general operations of the company, with profits distributed in proportion to capital invested, and the number of shareholders was increased to 276. The first joint-stock voyage took place in 1614, but it was still limited to a four-year subscription.

Thus, twenty years after its inception, the company had evolved into a more advanced form with a new strategy and structure. The company had realized that, in order to trade efficiently, local operations (trading posts or factories) had to be established, although even the first voyage had factors on board who were left in India to develop trading opportunities and prospects. The factors sold the company’s goods and bought the return cargo ready to be leaded when the next ship arrived from England. This allowed a quicker turn-around and, avoided the high prices associated with having to buy in a cyclical seller’s market. By 1615, EIC had opened factories in Surat, Masulipatam, Pattani, Ayutthaya in Thailand and Bantam in Indonesia. At about the same time, the company began to engage in inter-Asian trade of Indian textiles.

The next step in the growth of the business was to expand operations to Japan and the Middle East, a strategy which allowed the company to trade a better mix of commodities. While the company had decided to invest in buying fixed assets (their own ships), it found this approach to be ineffective and it turned back to leasing. Merchants still dominated the shareholder community, but the company expanded the shareholder base by allowing members of the gentry, courts, and royalty and politicians to acquire shares. The strategy served to increase efficiency and profitability in merchandizing.

In 1657, the Company became a genuine joint-stock endeavor with continuous, investment without term and
without reference to individual voyages, and stock valued and traded at the company’s headquarters on Leadenhall Street in London.

What seemed at the company’s inception to be just another entrepreneurial venture of merchants trying to take advantage of the arbitrage opportunities, had grown to what we would call in contemporary vocabulary an international corporation. At the beginning of the venture, a homogeneous group of merchants with experience in international trade used their knowledge and skills to organize the company. As the company grew, the investor base became more diverse, and different investors invested different stock used to finance different voyages to be managed by the company’s governors. With growth the classical agency problem arose as effective monitoring was not possible, especially of its activities in distant lands. The company was facing a serious problem and needed to design a structure which would allow all participants to find it in their own interest to do what was expected of them by the other members of the organization. This difficult challenge, which was never been completely resolved, and led to the eventual collapse of the company two and a half centuries later.

3. EAST INDIA COMPANY – A PRECURSOR OF A MODERN CORPORATION

W. R. Scott in his book on constitution and finance of joint stock companies (1912) analyses various forms of organization existing prior to the joint-stock companies and traces the origin of a joint-stock company in gilds from which many various forms of organization and cooperation derived through a gradual process of differentiation. Of special importance was an institution called gilda mercatoria – a type of social gild which was devoted to trade. In the gilda mercatoria trade was allowed only within the circle of their own members: a partnership with a non-member of guild was prohibited. At the beginning of gilda mercatoria gildmen could form a partnership for purchase of inventory at the same price, later the gild would appoint officials to make purchases on behalf of the gild which than would be subdivided amongst its members (Scott, 1912, p.6). However each gild’s members was making independent investment decisions and traded in his own name and could, but did not have to, participate in a particular trade. Since the purchases were administered by a special
appointee therefore there was a need for development of special control mechanisms and by-laws to protect the gilds monopoly of particular trade. This form later evolved to a regulated company for which the king granted privilege for merchants to trade to a particular destination, to assemble and to elect a governor and his assistants. The merchants were also allowed to make a statute and ordinances to better manage the company and the governor had the power to executing justice amongst English merchants in the territories described and of protecting the concessions the company was given the right to (Scott, 1912, 8). This, described above form of business organization was dominant before a joint-stock company arrived on the scene.

The charter of incorporation ensured that the East India Company would be a restricted trading company whose focus would lie entirely on profit from trade between England and the East. The traditional methods of financing trade were however inadequate for providing the large amount of capital needed to sail overseas. Traditional forms of business were becoming less efficient in this market: A group of merchants that decided to form a partnership with high financial needs and write a contract for it would find the task very complicated, and the partners would have a difficulty in arriving at a reasonable contract. What’s more, fulfillment of such a contract could be difficult to observe and, therefore, to enforce. Merchants were no longer able to use self-financing or debt financing, so the purpose of a joint company was to trade collectively on behalf of its members. The investment was characterized by huge capital needs for long durations-the investment had to be made for two to three years-high risk, and asymmetric information between the traders in Asia and merchants in England. The joint-stock company drew its capital from a wider group of investors, but the managerial control of trade remained in the hands of merchants. The writing of the EIC’s charter of incorporation was the beginning of a constant struggle to design an organization as an alliance of all participants and to create a culture which would satisfy all participants. The charter of incorporation set forth certain rules of conduct to solve the monitoring problem, which was well envisioned by the promoters because of their prior experience with carrying responsibility for mutual funds in a regulated company. The charter of incorporation also required the company to prepare “bypasses” which would help in running the company. For instance, the Company Commission for the
First Voyage (Birwood, 1893, p.2) required the company to keep all transactions related to the voyage on one account and prohibited “private traffic barter exchange or merchandising.” To avoid private barters, the charter required that “inquisitions be made in all and every each several ships of the said voyage and elsewhere by search of all such Chest, Boxes, Packe, Packette, Bookes, writings and other means whereby discovery may be made of the breach of this present ordinance.”

The internal organization of the EIC’s administration was also laid down in the charter. The Governor, a deputy, and twenty-four committee men were to be elected annually by a ballot in the general assembly of shareholders (the Court), and the court could remove the Governor by vote if it wished.

“And further we will and by theirs presence for our heires and successors we do order that there shall be from henceforth one of the same Company elected and appointed in such form as hereafter in theirs presence is expressed witch shall be called the Governor of the said Company, and that there shall be from henceforth Twenty four of the said Company elected & appointed in such form as hereafter in theirs presence is expressed, witch shall be the Committees of the said Company for the time being shall have the director of the voyage of or for the said Company and the supervision of the slippages and merchandises thereto belonging, and also the sale of all merchandizes returned in the voyage, of or for the said Company, and the managing and handling of all other things belonging to the said Company, and for the better execution of this or will be granted in this behalf.”

(Charter granted by Queen Elizabeth, founding the Company in 1621 in: Birwood, 1893, 169)

The twenty-four managers responsible for the same number of “committees” reported directly to the Governor and his deputy. Such a structure encouraged stability and strong leadership in the organization. The work of each committee director covered the day-to-day business of operating the company’s workshops, ships, and central administration), they also managed the company’s affairs, with the assistance of some administrators. The managers were responsible for setting out the ships, selling the goods, and buying provisions, victuals, stores and merchandise and were expected always to be in touch with all company’s activities. In that sense, the Governor and the committees constituted the Court of Committees, a body that we could today call the firm’s board of directors. The Court of Committees reported to the Court of Proprietors.
The top management resided in England, so an important challenge lay in managing the managers at a distance, a challenge as great as the distance between London and its factories in India. With 6 months’ transmission time between the two locations, the problem was difficult to solve. The geographically dispersed nature of the company’s operation meant that significant responsibility had to be delegated to company employees overseas, and a poor communication system gave rise to considerable information asymmetries, with head offices struggling to determine whether unfavorable trading outcomes were the result of conditions beyond control and or slack, malfeasance and privateering. The company had to devise and introduce mechanisms to extend headquarters’ control over managers in overseas offices and reduce transaction costs, mechanisms which included individual incentives (salaries), a monitoring system, writing bonds and oath-taking.

By 1621, the company had eighty pages of laws or rules, the Standing Orders of the East India Company, listing the exact duties to be performed by the top management and the administrative staff: the Governor, his deputy, the Treasurer, the Secretary, the Auditors and the Accountants. The procedure for the top managers and the shareholders at their meetings were also described, as were the responsibilities of the clerks in charge of shipyards, naval stores, the slaughter-house and warehouses.

The development of the Standing Orders was a long, evolutionary process wherein the creators used their own experience and developed knowledge over a long time. The Standing Orders were the results of the processes of adjustment to new situations as they arose overtime. The Standing Orders were printed for the first time in 1621, twenty years after the first ships were sent to Sumatra and Java, to codify the roles and duties of the company’s management and employees, the governance rules, and the internal control mechanisms.
4. A CONTRACT MODEL OF THE EAST INDIA COMPANY

A firm can be thought of a set of contracts or alliances among various participants who are assumed to be rational. Agents are said to be rational if they choose, within the constraints of their opportunities and information, the more desirable courses of action over the less desirable ones. In that sense, a firm is a place where self-motivated economic agents play by mutually agreed upon or implied rules to achieve their respective objectives (Sunder, 1997, 19). The rules are set to convey the shared expectations about how each participant will behave in various circumstances.

The EIC was much like modern business in that it structured a set of contracts among agents who provided equity and debt capital, labor, managerial skills, auditing services, goods and commodities for resale, cash, and infrastructural facilities and who bought products from the company. Contracts obligated each agent, with the respective personal tastes and economic resources, to contribute resources to the organization’s pool and, in return, entitled each agent to receive remuneration from the pool (Sunder, 1997, 16).

Contracts in a firm’s set can be explicit and implicit, easy and difficult to enforce, short-term, long term, internal and external. For example, a contract between owners and managers and managers and their agents in Asia could be regarded as internal, while external contracts would be those made with suppliers of goods or buyers of merchandise. A graphic illustration of the EIC as a set of contracts among agents is shown in Figure 2.

The shareholders provided capital, while a hierarchy of salaried managers coordinated the flow of goods, services and information between England and Asia. The early success of the EIC can be explained by its ability to keep the cost of transactions low by collecting, processing and coordinating information on tastes, commodities, and prices in the market (Carlos, Nicholas, 1996, 916), despite the difficulties of high uncertainty and asymmetric information. However, the structure of the company suggested that there was also another type of agency cost:
asymmetries of information between the Court of Committees and the proprietors as well as between the officers of the company located in India and the Court of Committees in England. As direct monitoring was impossible, especially in the case of managers locate across the oceans, administrative mechanisms had to be designed to extend control over managers in India. We shall analyze the role of various agents and their contributions and entitlements, as well as the mechanisms that were designed and practiced for contract enforcement in the form of the Standing Orders.

GOVERNORS AS TOP EXECUTIVES

The managers of a firm contribute a variety of managerial skills and knowledge. In modern corporations, managers do not provide financing but are hired to use the resources provided by other agents. In the early years of the EIC, however, the top managers were also investors in the company. According to the charter, a Governor, together with twenty-four Committees (directors), were selected annually from among the proprietors (the General Court), which could remove from office the Governor or any member of the Committees on the grounds of “not demanding themselves well in their said office.”

The Standing Orders suggested that special care should be made in the choice of the Court of Committees, such that “they be not only fit men and of the best experience in merchandizing, but also as may and will attend the business” (Standing Orders, 1612, article XXV, p.6). Thus, it was likely that shareholders in the early years of the company had similar backgrounds, lived in the same areas, and had good knowledge about one another’s reputations and ways of doing business. Shareholders were certainly motivated to elect the best persons to serve on the committees, as they were putting their own capital at risk. Such careful selection of governors affected positively the stability of the company, and the collective wisdom exercised by governors was reflected in the profitability and in the satisfaction of investors in the early decades of operation. Chaudhuri (1965) noted that there were three outstanding governors who together served for 44 years of the 57-year history of the company.

Managers, as the only group of participants who work with all other agents,
have privileged access to information about contractual obligations and the rights of various agents. However, this access to inside information may create the problem of adverse selection and moral hazard on the part of managers, while the contributions of managers are difficult to observe. This means that writing a managerial contract is not easy. Although the top managers of the East India Company were also investors and, in that sense, should have behaved in their interest, the privileged position of having better access to information as well as access to the resources invested in the East India Company made them vulnerable to opportunistic behavior aimed at their personal welfare. A well designed employment contract is supposed to mitigate possible opportunistic behavior of the managers, and in designing such a contract, various mechanisms—including special rules for their remuneration (incentives), monitoring mechanisms, and creating special esprit de corps among the company members—could be employed.

The salaries of the governor and committees were voted upon by the General Court and were said to be “high and generous” (Jones & Ville, 1996, p. 904). According to W. R. Scott (1912), the early records related to remuneration of managers are lost. The first mention of a payment to the Governor was in 1609, when the General Court granted Sir Thomas Smyth £650 in recognition of his aid in obtaining the charter and for his services as governor for five years. Sir Thomas Smyth was one of the three highly regarded governors of the EIC in its early years and, he served as its first governor, and two later terms for a total of 11 years of the first 21 years of the EIC’s existence. Scott also reported that Mr. Smyth refused to serve the company after the next election unless his salary was reduced to £400, a very altruistic attitude by today’s standards, in contrast to the standard opportunistic behavior expected of many managers. This may be a testimony of his personal honesty, ethics and desire to serve all the participants of the firm. Alternatively, it could signal the existence of moral hazard, and such volunteering act may have been invented for the sake of appearances to mollify investors who regarded this compensation to be too generous. Given the length of Smyth’s stay in office, the latter interpretation is however unlikely.

Apart from basic salaries for its executives, the EIC also had a bonus system in which the bonuses were based on performance and were decided by the shareholders. In 1615, for example, a bonus
£1000 was given to the 24 directors in response to the growth of the business, which required their attendance every day (Scott, 1912, 163).

Officers of the EIC were elected by the Governor and at least thirteen of the committees in June of each year. Officers did not have to the investors in the company, although priority was given to “the free Brethren of this Company,” and could be dismissed “upon perfect knowledge of their insufficiency or other misdemeanors.” Every officer was expected to take his Oath openly in Court and to give bonds “…with sufficient securities for their true performance” in order to mitigate the moral hazard problem, especially in a case when a manager had not invested his own capital in the company.

According to the Standing Orders, wages and salaries of all company managers and employees were to be determined by the Court of Committees on the basis of seniority, and skills, and were probably also based on the prevailing market wages (Article CCLXXIII, p.61). The Standing Orders also regulated other financial considerations such as gratuities and bonuses. This was especially important for the servants in London as they had little access to other forms of incentives. The gratuities were also decided by the Governor for “worthy and well delivering persons . . . provided that no gift or gratification to one man shall amount to a greater value then the sum of one hundredth pounds.” The payment of a greater sum of gratification was to be decided by the General Court.

The top executives and officers based in England were a special class of agents who managed the company but most of whom were also shareholders. This, and the limited term of one year subject to reelection ensured that their interests were aligned with those of the other shareholders. At the same time the company invented other governing mechanisms to protect itself from the misuse of power and information by the most knowledgeable men in the company. However, the most difficult problem of writing contracts with officers located overseas remained to be addressed.
OFFICERS IN ASIA

The Standing Orders divided the company’s overseas activities into two principal factories, one in Bantam (Indonesia) and one in Surrat (India). Later these factories expanded to Calcutta, Bombay and Madras. Figure 3 describes the hierarchy of managers and sub-firms in Asia.

The president and his council in each of the company’s principal factories reported directly to their superior body in London: the governor and the committees. The next level of operation was the outlying factories or trading stations. The president of the principal factory could communicate directly with the Court, while communications between the factories and the Court of Committees had to go through the principal factory. This organization design made the London headquarters the hub for all information about company affairs and the Court of Committees the only body fully aware of what was happening in London and as well as overseas (Arkin, 1981, 92).

One of the most distinct elements of the culture of the EIC was its monitoring efforts. The Standing Orders required that managers keep books of all correspondence with the subsidiaries, and all documents were to be sent to London once a year. The managers of factories in India were required to keep a journal containing “all notable occurrences” each day, and the principal factories were also responsible for collecting accounts of proceedings at the subsidiaries on a timely basis and, after examining them, sending them to England. The records related to the company were to be kept in a special place so every employee (factor) could have access to them at any time, which would help ensure that all important facts were entered into the books. The rule was likely established so factors would not keep certain news for themselves and to prevent loss of knowledge in case of the unexpected death of a manager (Standing Orders, 51 – 52). The managers based in Asia were expected to write to London at every opportunity and explain the latest...
developments in their territories, keeping London informed of all matters regarding the trading activities in their regions, their inventories, their financial status, their future stock requirements and the activities of their European competitors in order to help the company assess the future market conditions in Europe.

The promoters of the Standing Orders were also aware of the privileged access to information by officers residing in Asia. Factors were in possession of first-hand information about developments in the Asian markets, as well information about company affairs in their areas. In order to prevent private trading and ensure better access to information within company, the Standing Orders regulated the use and sharing of private information outside the company. All private letters from India were to be sent in an envelope to headquarters, and all letters, including the private ones, were to be written in “plain English, and without any Character.” Using other ways or means of sending letters than through the official company mail channel was regarded as unlawful—or at least against the Standing Orders.

Despite all these efforts, Jones and Ville (1996) documented that actual practice in the EIC deviated considerably from the Orders. Official information sent to London from India was often inaccurate, out of date, narrow in scope and limited in usefulness. Officers based in Asia tended to focus primarily on the type of trade goods required outside of Europe and the state of the market in imported produce.

Another problem concerned the absorption of information so it could be used. Companies must have in place systems capable of rapidly and efficiently apprising the quality of information, and executive structure that responds promptly and efficiently to new information. The periodic arrival of large volumes of information with the trading ships in an era preceding electronic communication must have affected how it was processed in the EIC headquarters.

Self-monitoring was a strategy designed to help to reduce problems related to the self-interest of factors in India. The Standing Orders permitted a “diligent enquire. . . from time to time of . . . all the factors [and] . . . if any of them be found to break the orders of the Company, to deal swiftly, or to be of an evil disposition; as common Drunkard, a notorious gambler or whoremaster, or wronger of the company by private Trade or otherwise insufficient” (Standing Orders, 55) Such a person was to
be sent back to London together with proofs and testimonies of his wrongdoing so the Company “may proceed against them according to the quality of their offence.”

The most serious threat for the welfare of EIC’s investors was the possibility of private trading. It was difficult to judge whether “missing an opportunity to catch good winds to return to England” was a matter of bad luck or a deliberate action of the factors in India and the ship captains so the vessels could be used for private intra-Asian trading off the company accounts, until the next good wind could bring the ship back to England. Managers, who already knew the market and had the opportunity to use company’s resources, could increase their private welfare considerably by engaging in private trading using company resources. The EIC’s policies on private trade changed somewhat over time; however, in the early years of the company, private trading was prohibited, and the commission for the First Voyage, the Charter of Incorporation and the Standing Orders made that clear. This position was related to the fact that, in the early years of the EIC’s operation, the company was engaged in intra-Asian trade itself; however, the company withdrew from it in 1680, leaving it to individuals. In the later years of the company, the organization fully sanctioned private trading. This inconsistent at the first sight position on the use of private information reflects attempts to find the best solution to a difficult problem of collecting and sharing knowledge in an organization. This issues have been widely discussed also in the contemporary world (Hayek, 1945; Manne 2005). According to Hayek (1945) the most important problem a planner (managers) encounters is the ability of managing knowledge which is dispersed among various individuals, often incomplete and frequently contradictory. This inability controlling private trading and the use of private knowledge for personal interest of IEC’s employees overseas the company probability decided to restructure compensation package and include the intra-Asian trade a part of a part of remuneration package its employees. This practice is consistent with some contemporary proposals for allowing the use of insider information in the financial markets (Manne, 2005).

No reports on private trading in the early years of the company are available (Erickon and Bearman, 2005, p. 213), but this does not mean it was not taking place. The lack of evidence may have been caused by the loss of early records of the EIC or be
the result of self-interested officers in India who refrained from reporting it. As private trading and bribing was difficult to prove and an easy way of increasing individual profits, many of those stationed in India acted opportunistically; not reporting private trading by other employees could have been part of a silent pact forcing the company to include the profits from such misbehavior an element of the compensation package.

Even though it was relatively common, private trading occurred to a lesser degree in the company’s first 80 years. Erikson and Bearman in their paper documented that the private trading network became larger with the passage of time and, especially after 1680, was probably the source of the company’s expansion in Asia (Erickson and Bearman, 2006, 213).

Variables related to international trade like different weights, measures, fluctuating currencies, and volatile prices provided a wide spectrum of opportunity for self-interested behavior. One example was the possibility of using different weights and measures for commodities. Article CCXXXIII of the Standing Orders recommends that English weights and scales be used to measure received goods and merchandise before the results were compared with the ship’s documents. Any differences found were to be reported to the Court of Committees. Another internal control technique prescribed by the Orders was the requirement to recount currency received in the presence of all the members of the ship crew which delivered the money to the factory. Any difference was to be promptly reported to the Court of Committees.

Another process which led to opportunistic behavior was gift-giving and sanctioned bribery (Jones and Ville, 1996, 906). Both were sanctioned by the company, although the Standing Orders required that all gifts to and from employees and managers be recorded in the books of the company.

SHAREHOLDERS (PROPRIETORS)

Investors occupy a special place in the firm because they commit resources to the firm and agree to the passage of a relatively long, even indefinite, interval of time before receiving any return on their investment. The EIC’s original mode of incorporation was not much different from an earlier form of regulated company; a new shareholder was supposed to pay an entry fee, a so-called “the freedom,” in addition to paying the
agreed upon price for the shares. Because they shared the risk the EIC investors were called “brethren” or “adventurers.” In its early years, the company could be terminated at the end of a voyage; in other words, the company was formed for a single expedition (sometimes two or three), at the end of which the finances were reviewed and the venture was wound up. Since each voyage was financed separately with its own stock and investors, the accounts of the voyages were kept separate with the records of stock subscribed for each shareholder.

In 1613, when the Joint-Stock Company was organized to replace the separate voyages, the company had a pool of capital in which all existing investors had an interest, and a new method of subscribing additional capital was adopted. The capital was originally subscribed for four years, and later it was extended for another four years. This is when the word “stock” was replaced by the word “capital” in the company’s terminology (Bryer, 2000, 347).

The capital of the EIC was obtained from a number of investors who were prepared to commit funds for voyages or a period of about four years. The majority of investors were merchants, and among them were two groups of shareholders. First was a small number of mercantile magnates, “city merchants” which were the dominant group of investors and promoters of the company. These city merchants invested large sums of money, actively administered the company, and were often directly involved in trade by buying goods from the company and reselling them in Europe. They had experience in foreign trade, as former members of the Turkey, Venice and Levant companies. These wealthy city merchants exercised great power in the company, giving rise to conflict between them and other investors. The second group of merchants consisted of merchants involved in regulated companies that traded with the rest of Europe—retailers and artisans, as well as professionals—who made money at privateering and worked for various syndicates in London (Harris, 2005, p.9). A non-merchant group of shareholders was made up of landowners who were noblemen and gentry. These investors did not take an active role in the company because they did not have the relevant skills; they had little influence on the company’s activities and performance.

Bryer (2000, 345) mentions the conflicts of interest between the city merchants – the insiders — and the other shareholders – the outsiders — because the EIC gave the former group the opportunity
to profit at the expense of the other investors. Bryr wrote that “... The primary interest of the great feudal merchants who provided its Governors and Committees was acquiring commodities cheap to sell dear on their own account\(^1\). For the generality the Company was simply a form of monetary investment.” In order to maximize the wealth of the generality, the company had to sell the commodities at the highest possible price, but it was in the interest of the Governors and the city merchants to sell the commodities at or even below the wholesale prices. We address this conflict in a subsequent section of the paper.

In the contract model of a firm, the resource entitlement of shareholders is defined as a residual and not as a function of their contribution. This arrangement makes investors vulnerable to unforeseen events and to the misappropriation of resources by other firms participants, especially managers and officers. When anything goes wrong, it is the investor who end up bearing a large part of the loss. In the EIC, the shareholders, at the termination of their contract, received entitlements in the form of capital subscribed and “freedoms” to the voyage, as well as a portion of profits in a form of “divisions.” If discontented shareholders could not agree on the payments, the capital was carried over to the next voyage.

Even if the risk of the whole endeavor were great, the trade to India proved to be profitable: the first two voyages earned a 95 percent profit, and net return on early individual voyages ran as high as 230 percent (Chaudhuri, 1965, p. 209) from the arbitrage opportunity open to the company. Profits on the initial investment were divided based on the share of each adventurer in the joint stock, but the adventurer had one vote in the General Court, no matter how much money he had invested. There was a formal procedure for arriving at how the divisions were made, wherein the auditors recommended divisions on a given stock to the committees, and those recommendations were then passed to the General Court for final approval (Scott, 1921).

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\(^1\) The logic of the business in the eyes of the main investors, the city merchants was that the elite and the generality pool their money. Then the ships leave with money and return with commodities. At the end of each voyage, the merchant elite take out their subscriptions as commodities (valued at wholesale prices) plus their share in the surplus of commodities over those sold to cover the company’s expense and charges related to overheads (like a share of costs of keeping factors and factories in India). The company sells them the remaining commodities, also at wholesale prices, to pay its expenses and charges and to repay the generality their subscriptions and their share of the surplus in money. The mercantile magnates then resell the commodities at retail prices and made additional profit.
In today’s companies, since the entitlement of the shareholders is a residual which is left after fulfillment of all other obligations, the shareholders are vulnerable to malfunction of the contract system. Therefore, it is important to the investors that they be kept informed about contract performance by other firm participants. Shareholders have also a special right to elect to board of directors, design the directors’ compensation packages, and control the audit process.

Meetings of the shareholders of the EIC provided formal venues for the exchange of financial information. In the first years of the EIC, each shareholder had one vote, regardless of his status or share in the company. Later, this strict equality of votes changed in favor of a system where 500 shares were equivalent to one vote (Harris, 2005, p. 29).

The General Court had the power to overrule a particular recommendation of the Court of Committees (Baladouni, 1983, 65). The role of the General Court was to exercise supervisory control over governors and the committees and to give advice. Since the meetings of the General Court were regular but probably not frequent, the presence of the governors and committees at the General Court meeting was compulsory, and absence or lateness could result in a fine.

According to the Standing Orders, the General Court of the EIC was supposed to meet at least once a year on the 5th of July for the election of governors and other officers. On June 5th each year, financial statements were presented, and the Auditors were supposed to confirm information provided by the Treasurer on liabilities on which interest was paid. On the last Tuesday of May, the General Court met for reading of the Standing Orders and well as for a meeting with the auditors who provided information on the actual execution of the rules set in the Orders. The governor was also to summon the Court upon arrival of ships from India and upon arrival of public letters from India. Additional meetings were called when necessary and, during troubled periods, the shareholders met often. The presentation of information in such meetings was formalized, but proprietors could question the governors of the Company. As with virtually all businesses, the meetings also provided an opportunity to meet with other interested parties and establish further networks of communication and information. Thus, information was also available through informal channels. In the early years there was no restriction against
entering the company’s premises, and the company maintained an open-book policy. This was possible because of the company’s practice of keeping meticulous records and open book accounts, along with the Court procedures of debate and voting. It is likely that shareholders were also able to get information in public places like taverns, shops, and auctions. Although some printed materials were available, most information was passed on orally, which gave an advantage to those investors who had a continuous presence in London.

Successful monitoring requires effective reporting systems that convey comprehensive, accurate and up-to-date information. Officers of a company may be reluctant to share information or be interested in diluting it. The EIC had mechanisms designed for the collection, transmission and dissemination of information, as well as special rules for checking the reliability and accuracy of information. However, these mechanisms were only effective only within limits. Once information reached England, the controlling problem was easier to resolve, but the company was not able to correct the problem of poor quality of information arriving from India, which was inaccurate, limited in scope and often out-of-date.

Baladouni (1986, p.20) provided evidence that there were delays in accounting and financial reporting and explained that the reason for such delays included the long communication lines between England and India. Other factors included lateness and deficiency of the bookkeepers in warehouses and other operations in providing necessary information, and confusion in the accounts resulting from incomplete and simultaneously run voyages. As a result of increasing suspicion about the reliability of the accounting information, the shareholders decided to appoint of auditors, although accountability to the shareholders still rested on Governor and the Court of Committees.

**AUDITORS**

Auditors determine whether management is providing truthful information about the company standing. In modern corporations, auditors are often paid agents from outside the organization, although the shareholder group has the right to hire auditors. In the case of the EIC, the auditors were also shareholders. They were drawn from the Court of the Committees and reported mainly to the Court of Committees.
The model of governance in the EIC is depicted in Figure 4.

Figure 4 depicts the places of potential conflict of interest in the organization of the EIC. The first place is in the relationship between the generality of shareholders and the governors. The second is between the governors and the officers and factors. Governors, who were usually city merchants, were likely to represent their interests, so the more serious conflict was likely to have been between the generality and the city merchants. If an inquiry or disagreement between the shareholders arose, the auditors of the Court of Committees were called upon to “satisfy the Company concerning the performance of their said Laws or Orders.”

However, the more important problem the company faced was monitoring officers such as treasurers, captains and factors, who had direct personal control over company’s resources. Therefore, the internal records of the EIC were audited by six auditors general, who reported to the Court of Committees and whose task it was to inquire and oversee the affairs of the company. As the Standing Orders stated it, their task was “to search out the Truth whenever there was occasions of difference for matter of Accounts which concern the company and to deliver their opinions to the Court or also to determine and end those causes which shall be referred unto them.” The auditors in the Court of Committees were responsible for informing the Court about any payment of cash dividend to the Adventurers. They also audited all books and accounts before they were entered in to the General Books “so they be prepared to deliver up a perfect Balance of all the said accounts into the Company.” In addition, auditors looked for possible errors, negligence and insufficiencies within the company.

The Standing Orders also required the appointment of two paid “auditors general” who were required to audit the accounts quarterly, check the reasonableness of the interest rate on any borrowing, and check the fairness of other expenses. The Standing Orders gave the auditors general the responsibility to follow records of the
general accounts of the company so they were true and fair and to check the details of each transaction. Their reports were approved by the auditors in the Court of Committees before they were given to the Governor, the Court of Committees, and the shareholders.

ACCOUNTING

There are no surviving accounting records for the first forty years of the EIC’s operation. However, information on accounting rules and the organization of accounting is available in the Standing Orders and the Court minutes. Business historians and accounting historians have also utilized meticulous Court minutes to learn a great deal about the company’s business and practice of accounting during the early years of the company.

The EIC’s accounting system is a good example of how a form of organization influences accounting in a firm. The EIC is a precursor of a joint stock company with some features of a regulated company. It was initially organized as a series of separate, terminable stock-repaying freedoms, capital advances and divisions. What was needed was a simple system allowing “voyage” accounting, where each subscription-voyage was effectively a firm which was founded at the beginning of the voyage and liquidated at the end, at which time the entire proceeds from the voyage were divided among the shareholders on the basis of their investments. In the meantime, when proceeds were available, they were divided pro rata and distributed to adventurers. This model is a good example of proprietary accounting, where the company is considered from the proprietor’s point of view and accounting procedure are carried out more like in a partnership.

The proprietary accounting system was simple at first glance, but with time it became less manageable as voyages were merged and multiple voyages were run simultaneously. The accounting system was not able to distinguish one voyage from another, and different lists of adventurers who financed various voyages added to the confusion. The lack of necessary information from India about expenses, inventory and cash balances also made closing of the accounts difficult, which left “remains” for long time with different lists of shareholders (Baladouni, 1983). So naturally the accounting procedures and reporting were redesigned to give a picture
from the whole entity point of view where
the adventurers were treated as outsiders
entrusting their property to the company.
This gave rise to another need of resolving
agency problems.

Since, in the early years, the Company
kept an open-books policy, it was possible
for the books and other documents were
removed from the accounting office by
accountants or shareholders. Baladouni
(1983, 66) found evidence of occasions
when accounting books were missing and
could not be found when they were needed,
and also found in the minutes a record of an

With the construction of its first joint-
stock company, the EIC had a single source
of capital to which all investors had
contributed. With the advent of this new
approach, it was clear that the old
accounting system had to be changed to
avoid confusion and to allow for true and
fair information to be prepared. Capital
accounting was needed to track for
shareholders’ capital. Scott (1912) and Bryer
(2000) provided evidence of the quick
development of a new accounting system
and of how fast the old term “stock” was
replaced with “capital.” In the old system
“stock” referred to money advanced by an
individual and his claim to the commodities
it acquired. As Scott explained, on the
formalized the organization of accounting but also regulated the duties and responsibilities associated with the keeping of accounting books by officers such as Treasurers, Clarkes in stores in London, and Clarks of the Imprest and Wages or Factories. The appendix of the Standing Orders also included an instruction on “The Order and Method that Accountants General Should Observe and Perform in the Managing and Digesting the Accounts of the Company.” What is surprising is that the accounting activity was a joint responsibility of accountants and auditors, as the Standing Orders required mutual monitoring by accountants and auditors. Auditors were to watch the work of accountants: accountants “shall not enter into the great books any amounts before they be audited and signed by the general auditor appointed by the court.” At the same time, the accountants were supposed to “carefully review the work of the said auditors and if they find any error, they shall presently cause the same to be reformed.”

The Accountant General was responsible for the Great Books (the General Journal and Leger), where entries were made after recording particular transactions in specialized journals and ledgers maintained and kept by Treasurers, Clarks of the Yards and Storehouse, the Clarke of the Slaughterhouse, the Clarke of the Imprest Money and Wages, Warehouses, Pursers, and Factors. Special care was also given to the job of Treasurer, who kept the general cash for the company for receipts and payments. A payment could be made only when there was a warrant issued by the governor or his deputy and at least four committees and, in addition, auditors were to approve any payment to adventurers.

The accounting books of the EIC covered two sets of accounts. (Records were kept in both journal and ledger.) The “Accompts Proper” provided a summary of the state of the capital, and the Accounts Currents provided information about capital movements. Detailed analysis of the accounting system of the EIC can be found in works of Scott (1912), Chudhuri (1965), Baladouni (1983, 1986) and Bryer (2000).
Even if the company elaborated a quite sophisticated accounts system, the double entry system was not introduced in the Company before 1630, when it was introduced in response to the increasing critique of the limited accountability for the company’s affairs and in order to allow all shareholders to have their exact balances whenever they wanted (Bryer, 2000, 345).

Summary
The corporate model which emerged during the early years of the EIC is of a collectivity of trader-investors who combined their efforts and resources to seek common economies of scale beyond their individual reach. The members elected some of their own as officers to manage the day-to-day affairs reporting to the governing body of the General Court. The officers of the company being primarily the shareholders, so their interest were aligned in a general sense. However this general alignment was insufficient to discourage officers from seeking personal gains at the expense of the general body of shareholders. This tension necessitated the development of control mechanisms at the company in the form of Standing Orders. Managing this conflict of interest involved inventing certain performance remuneration systems and monitoring mechanisms.

These solutions can hardly be called successful in a static sense. The study reveals a dynamic struggle between creation of better controls and efficient contracts in light of observed behavior on one hand, and changing behavior of company officers and employees in response to the controls on the other hand. The action-reaction sequence can be seen as a evolutionary cycle that continued through two and a half centuries of the company’s life before its takeover by the British Crown in 1858.

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Harris, Ron, (2007), The Formation of the East India Company as a Deal between Entrepreneurs and Outside Investors . Available at SSRN: http://ssrn.com/abstract=567941


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Murphy, A. L., (2005), Society, Knowledge and the Behaviour of English Investors, 1688 – 1702
Table 1. Investors, capital subscribed, divisions and returns in the early EIC

<table>
<thead>
<tr>
<th>Average annual admissions of investors</th>
<th>Voyage</th>
<th>Capital raised for voyage (£)</th>
<th>Total capital invested for voyage</th>
<th>Capital transferred to the next voyage</th>
<th>Dividend paid (£)</th>
<th>Divisions (profit plus subscription paid to shareholders)</th>
<th>Divisions (profit plus subscription paid to shareholders) in %</th>
<th>Total profit (% of invested capital) (as given by)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1601 18</td>
<td>first</td>
<td>68373</td>
<td>68373</td>
<td>68373</td>
<td>no</td>
<td>no</td>
<td>transferred to the 2&lt;sup&gt;nd&lt;/sup&gt; voyage</td>
<td></td>
</tr>
<tr>
<td>1602 18</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1603 18</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1604 0</td>
<td>second</td>
<td>60452</td>
<td>128825</td>
<td>122384</td>
<td>251209</td>
<td>195%</td>
<td>95.0</td>
<td></td>
</tr>
<tr>
<td>1605 0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1606 0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1607 29</td>
<td>third</td>
<td>53500</td>
<td>53500</td>
<td>53500</td>
<td>no</td>
<td>no</td>
<td>transferred to the 5&lt;sup&gt;th&lt;/sup&gt; voyage</td>
<td>?</td>
</tr>
<tr>
<td>1608 29</td>
<td>fourth</td>
<td>33000</td>
<td>33000</td>
<td>33000</td>
<td>voyage unsuccessful, capital written off</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1609 81</td>
<td>fifth</td>
<td>14200</td>
<td>67700</td>
<td>158418</td>
<td>226118</td>
<td>334%</td>
<td>234.0</td>
<td></td>
</tr>
<tr>
<td>1610 12</td>
<td>sixth</td>
<td>80163</td>
<td>80163</td>
<td>96997.23</td>
<td>177160.23</td>
<td>221%</td>
<td>121.66</td>
<td></td>
</tr>
<tr>
<td>1611 91</td>
<td>seventh</td>
<td>15634</td>
<td>15634</td>
<td>34082.12</td>
<td>49716.12</td>
<td>318%</td>
<td>218</td>
<td></td>
</tr>
<tr>
<td></td>
<td>eighth</td>
<td>55947</td>
<td>55947</td>
<td>118048.17</td>
<td>173995.17</td>
<td>311%</td>
<td>211</td>
<td></td>
</tr>
<tr>
<td>1612 m.d.</td>
<td>ninth</td>
<td>19614</td>
<td>19614</td>
<td>31382.4</td>
<td>50996.4</td>
<td>260%</td>
<td>160</td>
<td></td>
</tr>
<tr>
<td></td>
<td>tenth</td>
<td>46092</td>
<td>46092</td>
<td>68216.16</td>
<td>114308.16</td>
<td>248%</td>
<td>148</td>
<td></td>
</tr>
<tr>
<td></td>
<td>eleventh</td>
<td>10669</td>
<td>10669</td>
<td>23471.8</td>
<td>34140.8</td>
<td>320%</td>
<td>220</td>
<td></td>
</tr>
<tr>
<td>1613 51</td>
<td>twelfth</td>
<td>7142</td>
<td>7142</td>
<td>8820.37</td>
<td>15962.37</td>
<td>223.50%</td>
<td>123.5</td>
<td></td>
</tr>
<tr>
<td>1613-1623</td>
<td>first joint-stock</td>
<td>418691</td>
<td>418691</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>87.5</td>
</tr>
<tr>
<td>1617 - 1632</td>
<td>second joint stock</td>
<td>1629040</td>
<td>1629040</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>1631-1642</td>
<td>third joint stock</td>
<td>420700</td>
<td>420700</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>35</td>
</tr>
</tbody>
</table>

Source: Chaudhuri, 1965 and Rabb, 1966
<table>
<thead>
<tr>
<th>Account Proper</th>
<th>Adventurers’ Accounts</th>
<th>To show details of investments and the capital paid back to each adventurer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Accounts of Employment</td>
<td>All assets sent to sea, e.g., merchandise, ships, victuals after “digesting in the Accounts Currant”</td>
</tr>
<tr>
<td></td>
<td>Factors’ Accounts</td>
<td>Including all factors, accounts both for sales and employments made in and received from India (both in quantity and cost)</td>
</tr>
<tr>
<td></td>
<td>Accounting Profit and Loss</td>
<td>To show profit or loss for each voyage</td>
</tr>
<tr>
<td>Company Accounts</td>
<td>Merchandise Accounts</td>
<td>Movements of stock of commodities by voyage; for each stock, different account in proper denominations</td>
</tr>
<tr>
<td>Account Currents</td>
<td>Accounts of Employments</td>
<td>All the expenditures, by ship, of preparing them for sea (including costs of building them)</td>
</tr>
<tr>
<td></td>
<td>Accounts of Ships</td>
<td>All expenses for victualizing the ships</td>
</tr>
<tr>
<td></td>
<td>Accounts of Victuals</td>
<td>Salaries of officers, gratuities, rents and other ordinary and extraordinary charges</td>
</tr>
<tr>
<td></td>
<td>General Expenses</td>
<td></td>
</tr>
<tr>
<td>Returns from Abroad</td>
<td>Commodity Accounts</td>
<td>Arriving commodity according to invoices, plus charges and duties</td>
</tr>
<tr>
<td></td>
<td>Appraisal Accounts</td>
<td>All costs of appraisal of returning ships</td>
</tr>
<tr>
<td></td>
<td>Discharge Accounts</td>
<td>All wages and charges when any ship returns</td>
</tr>
</tbody>
</table>
Figure 1. Organizational Structure of the East India Company

<table>
<thead>
<tr>
<th>Court of Proprietors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governor</td>
</tr>
<tr>
<td>Deputy Governor</td>
</tr>
<tr>
<td>The Court of Committees</td>
</tr>
<tr>
<td>24 Committees</td>
</tr>
<tr>
<td>Officers</td>
</tr>
<tr>
<td>Treasurer</td>
</tr>
<tr>
<td>Captains</td>
</tr>
<tr>
<td>Factors</td>
</tr>
</tbody>
</table>

Figure 2. The EIC as a set of contracts among agents
Figure 3. Hierarchy of Managers and Sub-firms in the East India Company

London Headquarters

Principal factory in Bantam (Indonesia)
  - Factory in China
  - Factory in Japan
  - Factory in Sumatra
  - ............

Principal factory in Surrat (India)
  - Factory in Agemir
  - Factory in Agra
  - Factories within Gulf of Cambay
  - ............
Figure 4. Control and monitoring in the early years of the East India Company

- City Merchants
- The Generality of Shareholders
- Governors and the Committees
- Auditors
- Officers and Factors
- Prickprietors
- The Generality of Shareholders

35
THE ORDER AND METHOD THAT
THE ACCOMPANTS GENERALL
SHALL OBSERVE AND PERFORME IN THE
Mannaging and digesting the Accompts of the Company:
As followeth.

OR the more conveniency in the Mannaging of the said Ac-
accompts, consisting of so many particular estates and Adventures,
and disposed into such diversity of employments and returns; you
shall divide the said Accompts into two Bookes, namely, two Jour-
nals, with their two Liders: The one whereof shall be the Acc-
compt proper, and the other the Accompt currant, in each of
which, you shall handle these particulars following.

In the Booke intituled Accompt proper, you shall enter every particular
mans Adventure (according to the proportion he hath) mentioning his
name and quality so near as you may, making him Creditor for his said
Adventure in particular, according to the Payments he bringeth and pay-
eth in, that the Acquitances glueth the Treasurers, and your Bookes
may agree upon all occasions.

In this Booke you shall enter particular the payments and satisfaction
that is made to every Adventurer (for his Adventure) as it is taken out
by him, be it in money or goods; plainly shewing wherein, and when
every man is satisfied his Adventure: and you shall in these Booke charge
no man for any thing, save what is delivered on his Stocke.
In this booke likewise you shall enter every yeares totall employment sent to Sea, be it Merchandize, Ships, Victuals or Charges incident, after the same shall be first at large, and after particularly contracted and digested in the Booke of the Accompt currant, which you shall yearly by a parcell of Balance bring over to this Accompt, and here in one accompt enter plainly and distinctly the Merchandize first, then the Ships with their victualling, and that yeares charge successively; that it may readily appeare what every yeares employment and charge amounteth vnto, and wherein it consisteth.

In this booke you shall also enter all Factors Accompts both for Sales and employments made in and received from India, and although every Ships returne may consist of divers sorts of Merchandize, you shall notwithstanding in this booke arme but one Accompt for any one Ship, but shall in that Accompt both in Journall and Lidger, successively enter every commodity, expressing his quantity and cost.

In this booke you shall also only keep the Accompt of profit and loss, and shall cleare no Accompt or Voyage, till the same be fully accompted for, and shall also in this Accompt pase vnto every man his profit or loss, as the Stocke generally shall produce.

In the other booke called the Accompt Currant, you shall enter and digest all manner imployments and returns, amply and particularly, in the managing whereof you shall observe this order following.

For the outward imployments or issue of the Stocke afore mentioned in the other booke, you shall divide the same into foure Branches, that is to say;

1 The State of Merchandize, and of them you shall keepe distinct and severall Accompts in their proper kindes and denominations, not confounding many together: and the said Commodities as they are disposed into voyages, you shall cleare by the voyage whereunto they are disposed, and so every yeare cleare this branch, unless any be left which may remaine on their Accompts till the future yeares.
2. **THE State of Shipping**, which you shall likewise severally keep every Ship by its Silver, charging the same particularly with every Material that is expended thereon, as well to the Building, as furnishing, and for Store, together with the Charge of wages of Workmen employed therein, till the said Ship be fully furnished to Sea. And for plainer and ready performance hereof, you shall keep all the Materials, that are required to the building and furnishing of Ships in their several denominations and kindes, (and not heape them confusedly in the names of Officers and Storehouses) so that it may readily appeare how much of every Provision is spent yearly, and how it is spent, to the end necessary and competent proportions may alwayes bee provided, without superfluitie and unnecessary Charge.

3. **THE State of Victuallling**, you shall likewise keep in their severall Denominations and kindes, and the expense of them, Charge on every Ship according to his proportions, that of these kindes may appeare what is yearely expended, and needfull to be provided.

4. **Expenses General**, such as are Gratuities, Salary of Officers, Rents, Charges, ordinary and extraordinary, and such like: which you shall likewise keep distinctly, every one in his proper Name and type, that of this quality also may appeare what is expended yearly.

**AND** for Conclusion of this Accompt of Employment, for that every Year breedeth his Voyage, and charge of Ships, Victuals, &c. as above; you shall drawe out of these Branches every yeares Employment, to one head or Voyage, and thereon charge, first, the Marchandize agreeing with the Invoce, next the Ships, and the Victuals; and lastly that yeares general Charge, and this in particular, and successfuell: which thus contract-ed, you shall in one parcell ballance and beare over to the Booke called Accompt Proper, and there reenter as is ordered in the third Article, for the ordering of that Booke.

**S**uch necessary Accompts as arise in the current of this business with Factors beyond the Seas for Provisioon of Forraigne Commodities, Officers at home for the defraying of Charges, and monyes delivered for Provisions beforehand, bee carefull to keep distinctly and plainly that one Accompt bee not confounded with another.
FOR all commodities returned from India, which in the other booke you have entered according to the Inuoyce in one Accompt, you shall in these Bookes handle particularly each commodity in an Accompt by its selfe, and the sales thereof, on which commodities you shall charge his proper charges, and duties paid here in England, and the same being fully fold, you shall passe the same Proceede thereof into the other bookes, and there make the same good to the Inuoyce or Accompt it belongeth.

FOR such Ships as shall returne from India, being first praised, according to the Companies order, you shall enter particularly in this Book, and the same being fully perfected, you shall in one parcel passe the same over to the other Booke, and there allow the same in one total (referred to this Booke) to the Voyage it belongeth.

FOR wages and charges that shall arise upon any Ships discharge or returne, you shall likewise handle in this booke, and the same being perfected, passe the same in one entire parcel to the other Booke, and there charge the same upon the Accompt or Inuoyce it belongeth; that by this meanes it may plainly appear, what is got by each particular commodity, and every Ships whole lading.

BOTH in the one and the other Accompt, you shall not passe any thing without a sufficient Voucher to justify your Journals parcels under some Committy or Officers hand.

AND for conclusion of all, you shall digest and enter all Accompts into the Journall your selfe with your owne hand, For we will admit of no diversitie of hands: And being therein digested, we have appointed Jeremy Sambrooke to assist you for the passing of the said Journals into their Lidgers, and also in any businesse belonging to these Accompts, whom we would have to be acquainted with all other matters, to the end (That if God shall otherwise dispose you) he may be able to goe forwards with the businesse, and give vs a reason of the premisses.

Orders
Orders to bee observed For the better

Vouching of sundry Accounts, and have reference to certain other Articles, set downe for the perfect Auditing of the Companies Accounts, as in Page. [70]

Treasurers.

FIRST Let the Treasurers vouch all their Payments in generall, by the Receipts of the Parties who shall receive any money of them, and also by the Warrant of the Gouernour, or his Deputy, with Four Committees at the least; only the payments to the Adventurers upon Stocke, shall passe by the Warrant of the Auditors.

Let the Monies receiv'd for Freedomes bee compared with the Secretaries Booke, wherein bee noteth downe the times, Conditions and Names, of all those who are made Free Brethren of the Company.

Clarkes of the Yard

and Storehouse.

LET the Payment of every Weekes wages to all the Workemen in the Yarde, be vouched by the Notes of the Committees, who goe weekly to the Yarde to see the said wages paid.

Let the Accounts be carefully examined for all things whatsoever delivered into the Yarde upon Bargains made, and the like concerning the Clarkes Receipts for all the Materials provided and sent into the Yard by the Husband, or by any other for the Company.

Let the Bookes of all the subordinate Officers in the Yard, which are digested into the Clarkes great Bookes, bee diligently compared together, and the like by the Receipts for Materials delivered one from one Officer to another.

Let
Let the Bookes and Receipts of the Purcers in the Companies Ships bee
duely examined for all Provisions, Stores, Victuals, or Marchandise deli-
uered out of the Storehouses, Yards, or by any of the Companies Officers,
and charged upon the said Ships.

Clarke of the Slaughterhouse.

Let the charge of the Clarke of the Slaughterhouse, be compared with
the Accompts of Beefe and Pork, and let his Discharge upon Shipping be examined with the Purcers Bookes.
Let no Accompt passe (without the knowledge and Order of the Court)
wherein the Offals of the Beefe and Pork, doe exceed those severall rates
in the tryall made for the Company, which is Registred in the Booke of Remembrances, in Page. 13.

Clarke of the Imprest money and wages.

Let the Accompts of the Clarkes concerning Imprest money, bee ex-
amined by the Booke of the Committees, who entertaine the Marri-
ners; and by the Bonds of the parties to whom the money is Imprested.

Let the Wages which is paide to Marriners Wives upon Accompot for
their Husbands, be vouched by the Order and Warrant under the handes
of the Committees, who entertaine the said Marriners.
Let the Wages which is paide to the Marriners after they returne home,
be vouched by Order and Warrant under the handes of the Committees,
the Accomptant generall, and one of the Auditors.

Accompts of wages.

Let the Accompts of wages for Commanders, Factors or Marriners,
be compared with the Acts of Court, and with the Booke of entertainment kept by the Clarke of the Imprest; and let the time of any of their
Deaths, and their Debits be examined, by the Audifes or Letters out of the
Judges, and by the Purcers bookes.
Warehouses.

Let the Warehouses for Merchandize be charged with a Book for that purpose, wherein every particular Commodity is set downe by number, weight or measure, as it is received out of each Ship severally.

Let the said Warehouses bee Discharged according as all the said Commodities shalbe delivered out, by lawfull Warrant subcribed by the Gouernour or his Deputy, and the Committees of the Warehouses.

Purcer generall.

Let the Purcers generalls Accompts for Wages paid aboard Ships be vouched by the Purcers Bookes of each Ships.

Petty Charges.

Let all petty Charges which is disbursed by the Husband or any Officer to the Committees, or to any others, for their occasions in the Companies business, bee vouched with a Note vnder the Parties hand writing, to whom the money is payed and warranted, as is ordered.

Factors Accompts.

Let the Factors Accompts concerning Number, Weight and Measure of every Cargo sent out or received home, bee examined, the one by the Invoyces, and the other by the Booke for Discharge of each Ship, into the Companies Warehouses.
Let the Bookes of Accompts from *Bantam* and *Surat*; concerning the Affairs of the subordinate Factories, which are digested into the said Bookes, be compared with the Originall Accompts.

**Olde Stores.**

Let it bee diligently observed that every Officer, who shall receive any olde Stores from the Companies Ships which returne home, bee accountable for the same by the Booke of Inventaries, wherein all such things are noted downe particularly.

**Brokes.**

Let there be care taken, that the Brokes bee justly charged upon all mens Accompts whosoeuer, that shall not pay in their Moneyes at the times appointed, and if any mens Accompt bee found to receive favour in this kinde by Order of Court, then let the Court Bookes bee searched, to vouch the parcell.

**Gratifications.**

Concerning all the Gratifications given by Order of Court, let every parcell be examined by the Court Bookes.

**Billes of Parcels**

for all Goods bought.

And generally let all the Marchandize, Provisions, Victuals, and Stores bought, either by the Committees, the Husband, or any other for the Company, bee vouched by a Bill of parcels subscribed by them, and by the Parties who sold the goods.

**FINIS.**