Trading with strangers: the corporate form in the move from municipal governance to overseas trade

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The transition from personally based business collaboration (which was confined to relationships with family and friends) to impersonal collaboration (with outsiders to one's social group) was a breakthrough in the economic rise of Europe. This chapter analyses the transformation of the usage of the corporate form from municipal based public purposes to business and trade purposes around 1600. The corporate entity was used in that transformative period as the platform for fostering sustained, multilateral, for-profit collaboration between strangers.

The chapter focuses on the formation of the English East India Company [EIC] in 1600 and Dutch East India Company [VOC – Verenigde Oostindische Compagnie] two years later. Though it is a study of two business enterprises, it has far-reaching implications, first because the two played an important role in a major economic transformation – Europe’s take-over of Eurasian trade, and second, because they were the first publicly-held business corporation and a model for all later adopters of this organizational form. The chapter argues that the formation of the EIC and VOC should be understood as a means to achieving collaboration between entrepreneurs who aimed at establishing oceanic trade with Asia, and passive outside investors who would only cooperate within an institutional framework that would reasonably protect their interests vis-à-vis the insiders. The institutional framework had to surmount several unprecedented hurdles. First, the high maritime and political risks involved in such oceanic trade with foreign territories. Second, the need for a large number of investors given the high shipping and trade costs. Third, the considerable informational asymmetry between the merchants in Asia and the investors in Europe. Fourth, the need for longevity of the enterprise given the distance and the need to accumulate knowledge of the markets and the routes.

1 This chapter distils the main arguments of Chs 9–11 of my forthcoming book: The Birth of the Business Corporation East and West: Eurasian Trade Institutions and their Migration, 1400–1700. I would like to thank participants in the University of Virginia Legal History Workshops for invaluable comments.
The chapter argues that a preexisting legal institution, the corporation, was put to new use in order to surmount these obstacles. In its traditional use the corporation already acquired a separate legal personality, with hierarchical and participatory structure of governance and with the understanding that corporate officers acted as agent on behalf of the corporation without bearing personal liability. Around 1600 the corporation was combined with a newly developed financial scheme, the joint-stock capital, which enabled numerous individuals to pool together pro-rata equity investment in an enterprise. The interests (shares) held in the joint-stock capital had an interface with the emerging government bond market. The amalgam of the legal concept of the corporation and the financial concept of joint-stock capital matched for the first time in history passive external equity investors with long-distance trade enterprises.

THE EUROPEAN ORIGINS OF THE CORPORATION

A long-standing debate surrounds the early history of the corporation. I identify four different approaches in the historiography of the origins of the corporation. The first, which views the corporation as a Roman jurists’ invention, was advanced by law scholars and historians of Roman law, such as Duff (Duff 1938). They interpreted Roman legal texts and the corpus juris civilis as containing evidence for the existence of a corporate conception in classical Roman law. Recently, Malmendier suggested that the societas publicanorum, a society of government leaseholders, was the earliest predecessor of the modern corporation. Yet this institution, which appeared in the 5th century BC and reached its height during the republic, was not reflected in later legal texts such as corpus juris civilis (Malmendier 2009). More recently, Abatino, Dari-Mattiacci, and Perotti identified another Roman institution, the peculium, as a substitute for the corporation. The peculium provided de facto depersonalization by making a non-legal person the fulcrum of the business: the slave. This format exhibited all the distinctive features of modern corporations, including asset partitioning, thereby providing a functional equivalent of the modern corporate form (Abatino, Dari-Mattiacci and Perotti 2011). Even if the identification of corporate features in the societas publicanorum or the peculium is widely accepted by scholars, these institutions, which might be very relevant for understanding Roman economy
and may offer an interesting alternative to the corporation, had no direct continuation into the high Middle Ages.

The second approach in the historiography of the corporation argues that it is a product of 11th–13th century revivers of Roman law scholarship in the newly founded Italian universities. According to that view, the Italian glossators and commentators, the interpreters of Justinian Code, read into a few scattered statements by Roman jurists a coherent legal concept unrecognized by contemporaries, doing so not as a scholastic exercise but rather in order to serve the new needs of their age (Avi-Yonah 2005). Specifically, they responded to their changing environment in which city-based associations such as independent city municipalities, universities, colleges, and guilds were gaining importance. These associations needed an institutional platform for owning property, setting governance structures, resolving disputes, and the like that the corporation provided.

The third approach views the corporation as originating in medieval Germanic tribal traditions. It points to the communal spirit of German tribes as evidence of a corporate ideology. This view was advanced by German nationalists, notably Von-Gierke, in the late 19th century (Von-Gierke 1900). Unlike Roman law and the south European Latin culture, which were individualistic in their orientation according to Gierke, the basic Germanic orientation was toward the group, the association, and the fellowship. This view lost support with the discrediting of German nationalism.

The fourth approach, which I am the most convinced by, considers the corporation an invention of the church and canonic law (Berman 1983, Grant 2001). Several controversies that shook the Catholic church between the 11th and 15th centuries – including over investiture (the conflict between the Emperor and the Pope), conciliarism (the conflict between the College of Cardinals and the Pope), and the papal schism (split between Avignon and Rome claimants to be the true Pope) – were often argued in corporate terms (Tierney 1955). The issues at stake included: who appoints the Pope?; who appoints Bishops?; does the Pope have to consult or seek the approval of the Council?; where did the authority and ownership of property lay when the seat of a Pope, a Bishop, or an Abbot became vacant?; did the Pope or Council of Bishops have the ultimate authority?; and was the church a corporation? Deep issues of hierarchy, centralization, and representation were discussed in corporate terms. We do not have to enter here into the history of the Catholic Church or the exact positions in the debates. What is important for our purposes is that the
corporate concept was developed within these controversies and was intended to resolve organizational aspects of the Roman Catholic Church. The emerging law of corporations became the constitutional law of the late medieval Church. The corporation provided legitimacy and working tools for the full range of ecclesiastical organizations, from the papacy to the monastery, fraternity, and religious order. The corporation served the objective of separation of the constitution of the Church from that of territorial rulers.

Why did the Roman Catholic Church, out of all the organized religions, need such a legal–constitutional conceptual framework? Two factors played an imperative role. While many religions developed as part of the apparatus of rulers and states, the Catholic Church aspired to separate from the emperor and other lay rulers (Feldman 1997). While several major religions were decentralized, this church was centralized and hierarchical. The combination of these two factors, detachment from political rulers and hierarchical structure, made it singular.

The fourth view can, without any difficulty, be reconciled with the second view, or even absorb it. The use of the corporate form to solve the organizational problems of towns, colleges, and guilds was a positive spillover from the church. Had the church not developed the corporate form, these other bodies would have undoubtedly taken a different organizational path as they did in other parts of Eurasia.

Once the church had developed this form, the question of how to reconcile the canon law conceptualization of the corporation with Roman law texts had to be addressed. The glossators and commentators reread Roman law doctrines and institutions, not only in line with the new reality of towns and guilds, but also, or even primarily, in line with newly developed mediaeval canon law theory. After all, to take just two examples, Irnerius (1050–1125 or thereafter), the founder of the Glossators School at the University of Bologna, was involved in an investiture controversy, and Pope Innocent IV (1195–1254) taught canon law at the same University of Bologna before his ascendance to the papal throne. At this point, even the first view can be integrated into the fourth. Modern readers of Roman law found in it corporate conceptions that were inserted not by the original authors, classical Roman jurists, but rather by the interpreters of the texts, medieval legal scholars.
By the 15th and early 16th century, the corporation was already well established as an important organizational and constitutional tool in Europe. It was uniquely European. It had been employed for several centuries for ecclesiastical purposes. Political rulers did not use the corporate form for their purposes. They relied on hereditary or religious legitimation. They did not want to design participatory forms of governance. However the corporate form had already spilled off to municipalities. Cities in some regions of Europe assumed a level of independence and autonomy from Popes and Emperors and from the rural feudal system. They found the corporation as a good platform for organizing municipal governance, and city based economic activities such as craft guilds, merchant guilds, livery companies, regulated companies, and educational activities such as universities and colleges. Guilds, the most significant late mediaeval economically active corporations, had considerable social, fraternal, ritual, and even religious elements. They served as fellowships or brotherhoods that controlled and ritualized whole aspects of their members’ lives (Black 2003, Epstein 1998, Ogilvie 2011). They were total institutions not passive investment tools, and they disciplined their members accordingly, applying social and religious norms and sanctions. Membership was determined by status and not contract. In modern terms they were not aimed at profit maximizing but rather as a regulatory order, performing public or semipublic purposes.

The features of the city-based corporation became quite stable. It had a legal entity separate from that of its members. Its legal personality secured longevity. It did not terminate with the death of any human individual; it was potentially immortal and subject to dissolution only in a strictly defined manner. A corporation could own and convey land, albeit at times with restrictions. It did not have to litigate under its members’ names, but could sue and be sued, for better or for worse, in its separate personality, in the same manner as individuals. It could make bylaws to govern its internal affairs. As a legal entity, a corporation could acquire additional franchises, liberties, and exemptions from the state, usually in the incorporating charter or act itself (Blackstone 1890, Coke 1853, Sheppard 1659, Harris 2000, Kyd 1793).

Prior to the 16th century, a number of groups of merchants in England, such as the Merchants of the Staple and the early Merchant Adventurers, traded with nearby continental ports, but these were associations of individuals usually with no formal
legal basis or corporate status. They operated on the basis of a license or a franchise (Ogilvie 2011). In the second half of the 16th century, the corporation was increasingly used for the profit-oriented organization of trade. These English trade corporations are termed regulated corporations (Scott 1912, Harris 2000). This new utilization of the corporation for profit-maximizing resulted in no immediate change in its legal conception or in the features that characterized it. The regulated corporation was in fact a descendant of the merchant guild. Members of the regulated corporation traded in their own stock, assuming risks and liabilities individually. Regulated companies collected entrance fees, annual payments, and duties on imported and exported goods. Money collected in this way was used to provide facilities and services for individual members, such as factories, embassies and consulates, and convoys. Thus, while each member traded separately, bearing investment and risk on his own account, some of the infrastructure was common.

The short-distance trade to nearby Western European ports was gradually organized in regulated companies: the Spanish Company, whose trade also covered Portugal, was chartered in 1577; the Eastland Company, for trading with the Baltic Sea and Scandinavia, was chartered in 1579; and the French Company was chartered in 1609 (Irwin 1992, Cawston and Augustus 1896). The territorial monopoly of Merchant Adventurers, that were first chartered in 1407, and again in 1505 and 1546, received was extended in 1564 to include in addition to Flanders also the Low Countries and parts of Germany (Braudel 1982).

Towards the end of the 16th century long-distance trade to the outlying frontiers of Europe and to other continents – only entered into by English traders during this period – was organized in a new and experimental organizational form, the joint-stock corporations. Unlike the regulated corporation, the joint-stock corporation traded in only one account. That meant that members shared not only overheads but all business outcomes of the corporation – that is, all profits and losses. The first of the joint-stock companies was the Russia Company (also known as the Muscovy Company), founded in 1553 and chartered in 1555 (Willan 1956). Its initial ambitions included the discovery of the maritime Northeast Passage to Asia and to reach Asian markets overland. But eventually its main business was whaling and fur trade. The Levant Company (Turkey Company) was formed in 1581 for trade with Turkey and the Eastern Mediterranean (Wood 1964, Epstein 1908, Braudel 1982). The Levant Companies traded with Asian goods but its business model was outdated by the time
it was formed. Its merchants relied on Venetians and Arabs to carry the Asian goods to the vicinity of Europe. The two companies did not face the new challenges posed by the discovery of the Cape Route in 1497 and the massive import of Indian spices and pepper by the Portuguese to the European markets.

The experiment of both corporations with the use of joint-stock capital finance was not very successful. The initial investment in the joint-stock capital of the Russia Company did not reach the threshold of the high expenses needed for establishing the new trade nor the losses of ships and cargoes. In later years, more calls were made upon shares, with no dividends in sight. As a result, in 1586, the company was financially reorganized under the same legal form, but using short-term rather than longer term capital, and organizing it in several separate accounts, each for a period of one to three years. We shall see that this technique was adopted by the EIC a decade and a half later. This change stemmed from the difficulty in collecting from the original shareholders (Willan 1956). By 1622–23 this process had been taken one step further and the separate accounts were replaced by individual accounts. With this step, the Russia Company was in fact reorganized as a regulated corporation (Willan 1956). The financial structure of the Levant Company was debated as the charter expired in 1588. The merchants opposing joint stock trade had the upper hand, and the new charter of 1592 incorporated the Levant as a closed regulated company with high admission fees (Wood 1964).

There were also numerous other short lived English joint-stock adventures, involved in explorations, privateering and one-off trade expeditions some of them with Asian ambitions (Scott 1912, Shammas 1975), some of them competing with the Dutch pre-companies to which we shall turn in the next section. So by 1599 the joint-stock company model had not proved itself as a good way for raising funding, for managing trade and for establishing a long existing enterprise. The early joint-stock companies were experimental, relatively small, and often short-lived and did not engage in the real thing, Cape Route trade with Asia.

The quantum leap of the business corporation that involved the raising of joint-stock capital on an unprecedented scale, relying on more sophisticated financial

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2 These ventures included the Merchant Adventures for Guinea; the Senegal Adventures; the Gynney and Bynney Company; the Greenland Company; the Barbary (or Morocco) Company; the Canary Company; the Cathay Company; the North West Company and many others.
design, longer-term basis, took place only with the formation of the EIC and VOC, in 1600 and 1602 respectively. To the changing trade environment, the two East India Companies and the institutional quantum-leap we now turn.

THE DUTCH AND ENGLISH: LATECOMERS TO EURASIAN TRADE

For many centuries, contact between Asia and Europe was based on the overland caravan trade using the Silk Road and parallel routes. This state of affairs began to change in the opening years of the 16th century with the arrival, in Indonesia and India, of the Portuguese who sailed around the Cape of Good Hope. The Portuguese trade was organized within the *Estado da India*, a branch of the state that combined mercantile, naval and imperial functions.

The direct Portuguese trade with Asia, which amounted to buying spices, tropical commodities, and other Asian goods at source, put English and Dutch traders at a disadvantage. Together with the Venetians, these traders traditionally bought spices and other Asiatic goods at the Mediterranean entrepôts that served as the western terminals of the overland Silk Road and of the maritime Red Sea and Persian Gulf routes. Now that these routes were bypassed by the Portuguese, they had to buy the goods from the Portuguese in Europe at higher prices. The Portuguese dominance also extended to controlling the network that distributed Asian goods, particularly spices, in Europe. The English Levant and Russian companies found it hard to secure an ample supply of Asian goods at the western ends of these routes in the Ottoman Empire and on the Volga. The Dutch, who had so far focused their maritime attention on the Baltic and the Atlantic, also wanted their share of the growing Euro-Asiatic trade. In the closing decades of the 16th century, there were already signs of a weakening of the Iberians’ (now in the form of the Spanish–Portuguese Habsburg kingdom) control of the sea routes to Asia. These were manifested in the defeat of the Spanish Armada at the hands of the English, the advance of the Dutch Revolt, and the organizational crisis of the Portuguese ruler-owned Asiatic trade enterprise – the *Estado da India* (Chaudhuri 1965, Aghassian and Kevanion 1999, Scott 1912, Scott 1910, Furber 1976).

By the last decade of the century, Dutch merchants, organized in city-based organizations – the pre-companies – began sending annual voyages to Asia. A small group of English merchants, members of the Levant Company and the Russia
Company, realized that they could not compete with the Portuguese and the Dutch if they did not switch from relying on the old technology, the overland caravan, to the newly-introduced one, the ocean voyage. But switching costs were significant. What were the costs of setting up an enterprise that could establish Eurasian oceanic trade? The scope of the capital and its outlay would determine the necessity for cooperation with others – outsiders.

The challenges faced by Northwestern European merchants in their efforts to enter Eurasian trade could not be resolved using vehicles such as a single self-financing investor, a two-party investment contract, collaboration within a small and closed group of family and kin, or any other personally-based association. In order to enter this demanding trade they had to break through the frontiers of well-established Eurasian institutions. The challenges could only be met by designing a multilateral institution that would pool together capital from a larger group of investors, based on impersonal collaboration. Voyages to Asia were all-or-nothing undertakings. The risk could not be insured. As the investment was mainly in working capital, ships, crews, and goods in remote seas, no significant collateral could be offered to creditors. Lenders to such incomparably risky undertakings were expected to demand prohibitively high interest rates. But high interest, to the extent justified by the risk, was a violation of the usury laws (Malynes 1622). The extreme business environment made it more difficult to align the interests of entrepreneurial equity holders and passive debt investors. What the entrepreneurs needed was a multilateral institution that could provide a good platform for equity investment, longevity, and capital lock-in. The joint-stock business corporation was invented to meet this need.

The major factors that influenced the decision of promoters to design a novel impersonal collaboration-enhancing institution were: an unprecedentedly high need for capital, wealth constraints of the organizers, and the inability to rely solely on finance through social networks. Other factors that affected the shape of the collaboration enhancing institution were the high risks involved in oceanic trade and the obstacles to information flow from Asia to England. All of these will be discussed in the next two sections as the actual design of the EIC and VOC is examined. As we shall see in each of the sections, while the two companies resorted to the corporate form and to joint-stock finance they solved institutional challenges in a corporate design that was quite different. The differences in legal, political and financial
environment between England and the Dutch Republic led to the different design of the two corporations.

EAST INDIA COMPANY

In September 1599, a group of London merchants held a number of meetings that turned out to be the founding meetings of the EIC. The group was dominated by members of the Levant Company who felt it was crucial for them to enter the oceanic trade with Asia, now that the Dutch pre-companies had joined the Portuguese in using the Cape Route to the Indian Ocean markets.3 The promoters decided to work on two parallel tracks – one for obtaining a royal charter that would incorporate them as a corporate entity and license them to enter trade with new territories, and the other for raising equity capital for voyages to the East Indies from a large number of passive investors in the form of joint stock (Harris 2005a).

The Charter Track

The promoters negotiated with the Privy Council for a charter of incorporation, customs privileges, and license to export specie, monopoly, and possible political and military support. Queen Elizabeth I granted the charter to the EIC on December 31, 1600 (Stevens 1967, Harris 2005b). But she promised no investment or naval support. The first part of the charter created a corporate legal personality (Hale 1976, Maitland 1908). Its most distinct attribute, as evident in the charter text, was that it was incorporated as ‘one body corporate and politik’, a separate legal entity. It had a full set of legal capacities and privileges: to own land, litigate in court, and hold franchises – such as monopoly.

The EIC was incorporated in its first charter for a period of 15 years. For the same duration, the EIC was granted an exclusive trade monopoly for ‘all the Islands, Ports, Havens, Cities, Creeks, Towns and Places of Asia, Africa, and America, or any of them, beyond the Cape of Bona Esperanza [Good Hope] to the Straights of Magellan’. The monopoly meant that other subjects of Elizabeth could not trade with

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3 Thus, the explanations for the design of the EIC and the reasons for that design are somewhat speculative. They are based on an analysis of the available organizational options in 1600 England, on those of the post-formation concerns and discussions preserved on record, and on theoretical insights as to the advantages and shortcomings of each of these.
that part of the globe without EIC’s permission. In the second charter, granted in 1609, James I decreed that the EIC should ‘for ever be, and shall be one body corporate and politick’ and enjoy all the aforementioned privileges of incorporation indefinitely, making the corporate body and the monopoly perpetual, subject to recall with three years' notice (Shaw 1887).

From a formalistic legal perspective, the new EIC had a charter and a legal status similar to that of the various municipal and regulated trade corporations. The Charter of the EIC defined its basic governance structure (see Figure 4.1 below). This included a Governor, a Deputy Governor, a Committee of 24 – also called the ‘Court of Committees’ (and after 1709, the ‘Court of Directors’) – and a General Court composed of all members of the company (Shaw 1887). Voting in the General Court as in other corporations was based on one vote for each member.

<caption>Figure 4.1  Governance structure of EIC

Shareholder  Shareholder  Shareholder  Shareholder  Shareholder  Shareholder
As a corporation the EIC was organized in continuation of centuries' long English and European corporate tradition. The 1600 Charter used the general template and governance structure of earlier regulated corporations. The level of investment in the EIC joint stock did not affect the voting rights of members. Each member had one vote as was the case in older municipally based corporations. The 1609 Charter took into account for the first time the level of investment and granted one vote for every £500 invested. This made £500 the minimum holding to qualify for voting. In practice, most of those who passed this threshold had one vote, or at most two. This was the very first sign for a deviation from the corporate governance tradition. It came about due to developments along the joint-stock track. Towards the end of the 17th century the differentiation in voting rights based on value of shares in the joint-stock capital increased (Shaw 1887).

The Joint-Stock track
The second track, raising joint-stock capital, was where the innovative institutional action was really going to take place. As we have seen, the exceptionally high capital investment threshold of oceanic trade, the wealth constraints of merchants and the high level of risk involved, made it necessary to raise small amounts of money from a large number of investors, including from outsiders to the overseas trade sector.

The first recorded meeting of the EIC promoters on September 22, 1599 was devoted to advancing this solution and inviting potential investors to commit. A list of subscribers was prepared, noting the names of the 132 individuals who signed for total capital of over £30,000. Individual sums varied between £100 and £3,000, with £200 being the most common sum. By the time the charter was granted (on December 31, 1600), there were 218 chartered members, presumably all subscribers (Shaw 1887). All investors in the joint stock up to that point were listed in the charter. This was the first and last formal overlap of the two tracks. Further subscriptions were

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4 This arrangement was retained in the 1661 Charter. The 1693 Charter established a system of one vote for every 1,000 shares up to a maximum of ten votes for holders of 10,000 shares or above. In the 1698 Charter, a somewhat different method was fixed: one vote for holders of £500 in shares and above, two votes for holders of £1,000 and above, three votes for holders of £2,000 and above, four votes for holders of £3,000 and above and a maximum of five votes for holders of any amount over £4,000. A minimum of £2,000 in shares was set as qualification for directorship. See (Shaw 1887), Charter of 1600, Charter of 1609, The Charter Granted by Charles II on April 3 1661, Charter of 1693, Charter of 1698.
accepted up to the departure of the first voyage (February 13, 1601), and by then the total number of subscribers had reached 232 and the total capital had risen to £68,937 (Scott 1910, Harris 2005a). This was the first joint-stock capital of the EIC. The joint-stock was a financial and an accounting concept. It enabled the pooling together of capital from numerous equity investors. The understanding was that at the end of the venture the investment, with added pro-rata gains, or minus pro-rata losses, would be distributed to the original investors.

It is important to note that, while the basic joint-stock financial structure of the EIC was set before its charter of incorporation was granted, the charter did not reflect this structure. It was practically identical in content to the charters of 16th century regulated corporations. On the financial side it was taken for granted by the members that profits on the initial investment would be divided, based on the share of each adventurer in the joint stock. On the governance side it was also taken for granted that each adventurer would have one vote in the General Court.

The real challenge for the promoters of the EIC, because of the exit option at the end of each voyage, was to draw additional investment to the joint-stock of each subsequent voyage. The court minutes of the EIC are full of calls to raise more capital and send more ships, goods, and silver, due to requests from agents in Asia, and to match the large number of ships sent annually from 1602 by the VOC. A new account was formed for each voyage to Asia, and members could decide whether, and how much, to invest in each voyage. Expenses at home and abroad relating to a specific voyage were recorded in the relevant account. At the end of the voyage, the proceeds from the sale of the imported goods, less expenses on exported silver and goods, shipping, wages, and bonuses, were divided pro rata among the investors in that voyage. As the investment was mainly in working capital, liquidation of the account was, theoretically, not overly problematic. Whatever fixed capital was left, mostly in the form of surviving ships, was sold to the next voyage and transferred to the next account. But, due to mixing of activities the joint-stocks of two voyages would occasionally be merged. Altogether £464,284 was invested in 12 joint-stocks, used for 12 voyages, within just 13 years. This was an unparalleled sum in English history.

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5 In the contemporary Julian calendar, the year began on March 25, thus the voyage left 14 months after chartering.
<table>
<thead>
<tr>
<th>Year</th>
<th>Voyage</th>
<th>Capital in £</th>
<th>Profit in %</th>
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<tr>
<td>1601</td>
<td>1st</td>
<td>68,373</td>
<td>Combined with 2nd voyage</td>
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<tr>
<td>1603</td>
<td>2nd</td>
<td>60,450</td>
<td>95</td>
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<tr>
<td>1606</td>
<td>3rd</td>
<td>53,500</td>
<td>Combined with 5th voyage</td>
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<tr>
<td>1607</td>
<td>4th</td>
<td>33,000</td>
<td>Total loss</td>
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<tr>
<td>1608</td>
<td>5th</td>
<td>13,700</td>
<td>234</td>
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<tr>
<td>1609</td>
<td>6th</td>
<td>80,163</td>
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<tr>
<td>Total</td>
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<td>£464,284</td>
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Achieving such a high level of investment required the circle of outside investors that were not personally connected to any of the insiders to be recurrently widened. Insiders had to maintain their reputation when managing the EIC, its voyages, its business, and its distribution of profits, and nurture the relationship with passive outside investors so they would invest repeatedly in the ongoing voyages.

Not only the mere size and the expansion of the investing group, but also its diversity, support my claim that the EIC represented a breakthrough to impersonal
collaboration. Levant merchants were at the core of the group that established the EIC – the insiders (Brenner 1993).\(^6\) They were joined by Venice Company and Russia Company members. In addition, a few captains, navigators, privateers and explorers can also be viewed as insiders (Rabb 1967).\(^7\) These insiders evaluated the EIC’s financial needs and selected the institutional design that would attract a larger group of passive investors into the new and evolving enterprise.

Potential passive investors in the EIC could come from a wider circle and a variety of social and professional groups. They included members of the gentry and the aristocracy who were willing to undertake moderately speculative investments in the Asian trade. They included English merchants who were involved in the traditional wool- and cloth-based trade with Europe – the active members of the Eastland, Spanish, and, particularly, Merchant Adventurers-regulated corporations. Other potential external investors came from among London’s well-established manufacturers, retailers, and artisans: tailors and mercers, skinners and drapers, goldsmiths and ironmongers (Brenner 1993, Grassby 1995). Members of all three groups could not devote much personal attention to the Asian trade but would consider diversifying their limited fortunes within an appropriate institutional framework.

In 1613, a first longer-term joint stock was raised, for a period of eight years. A second joint-stock was raised in 1617 for 15 years; even though the first was due to dissolve only four years later. A third joint-stock was raised in 1632 for ten years. Capital was separately raised in 1628, 1629, and 1630 for three Persian voyages, while the second joint-stock was still in effect. The various pending joint-stocks of the company were integrated into one permanent stock in 1657 (Chaudhuri 1965, Scott 1910, Scott 1911).

The total capital of the EIC grew steadily over time. As mentioned, the capital for the first voyage of 1601 was £68,000; the capital of the first joint-stock of 1613

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\(^6\) There are no investment records for the second voyage. The database constructed for the present work, based on Rabb’s memberships in the Levant Company, holds slightly different numbers: 19 of those present in the first meeting, five of those appointed directors there, and eight of the committees identified as Levant members.

\(^7\) In a study covering the period 1575–1630, Rabb identified almost 43% of Levant Company members (157 altogether) also as EIC members, and about 19% of EIC members (230 altogether) also as Levant Company members. The percentage of overlap from the Levant side decreases as it covers members for the period from 1581 to 1630, but the EIC was formed only 19 years into that period.
was £418,000; the general permanent stock of the company was £370,000 in 1657, £740,000 in 1682, and £1,488,000 in 1693. In 1709, after the merger of the ‘old’ and ‘new’ East India Companies that competed for a few years, the stock of the United East India Company was £3,163,000. It reached an all-time high of £6,000,000 in 1794. Throughout most of the 17th century, the EIC was the largest joint-stock company in England (in capital) and second in Europe only to the VOC. By the 18th century, the EIC was second in capital only to the Bank of England and had overtaken the VOC to become the largest trading corporation in the world (Scott 1912, Harris 2005b).

To sum up, pairing the financial tool of equity investment in joint-stock with the legal concept of the corporation amounted to a major institutional breakthrough. However, this innovation created a whole new set of challenges that had to be dealt with. The initial innovation gave impetus to various financial learning-by-doing experiments, on the capital raising end and the capital distributing end, that lasted several decades. The EIC was transformed from a financial scheme of ad-hoc per-voyage capital (one–three years, invested in specific ships), to capital for limited duration (eight–15 years), and finally to permanent and continuous capital. After the middle of the 17th century a more stable model emerged that resembles the modern business corporation, having permanent stock, distribution only of profits and voting rights that are proportional to the financial investment.

VERENIGDE OOSTINDISCHE COMPAGNIE

In the seven years that predated the formation of the VOC, the years 1595–1602, the Dutch Asian ambitions were channeled into newly-formed business entities called, in retrospect, voorcompagnieën or pre-companies, meaning the precursors of the VOC. They are important for understanding the mix between continuity and change reflected in the organization of the VOC and the organizational differences between it and the EIC. The first of these pre-companies was formed in Amsterdam by nine merchants in 1594 (Pauw and Karel 1936), and was named the Compagnie van Verre (Far Lands Company). The active entrepreneurs, known as the bewindhebbers, initiated the formation of the company, determined its business plan and received commission for extra efforts, while passive investors, the participanten, were invited only to a share of the profits based on the sums they had each contributed. They
invested through the active partners who, supposedly, represented them. First pre-
company served as a model for several additional pre-companies. Altogether, 16
voyages, composed of 66 ships in total, were sent by companies from various cities in
the southern and northern Netherlands within this seven-year period, using the pre-
company model (Bruijn, Femme and Ivo 1979). The pre-companies, unlike ship
ownerships, were asymmetric in the sense that they had two classes of partners. The
pre-companies were based, conceptually and most likely also historically, on the
commenda. They were partnerships in the trade business and not in the ships
themselves.

The intense competition between these pre-companies had the effect of raising
prices for the Dutch purchasers in Asian markets and lowering the price of Asian
goods to Dutch sellers in Dutch and other European markets. It was also wasteful in
terms of the multiple investments in infrastructure made by the various pre-
companies. In 1602 in a bid to achieve monopoly prices, at least in the Netherlands, to
save in infrastructure costs, and to coordinate the struggle against the Portuguese and
against the recently incorporated EIC, six city-based pre-companies (from
Amsterdam, Delft, Rotterdam, Enkhuizen, Middelburg, and Hoorn) unified into a
single cartel, the United East India Company (the VOC) (de Vries and van der Woude
1997, Prakash 1985, Steensgaard 1977). The VOC was formed on the basis of these
earlier business entities, and was chartered on March 20, 1602 by the States-General,
the federal assembly of the Dutch Republic.

The preamble of the charter emphasized the company's private, or at least
semi-private, character and its profit-maximizing goal. The charter fixed the existence
of the company as a legal personality for 21 years. Unlike the charter of the EIC it
also outlined its financial structure. It is noteworthy that two levels were addressed,
the corporate longevity level and the capital lock-in level. Although this charter,
unlike that of the EIC, does not allude to the creation of a corporation in so many
words, in fact it creates an entity separated from the state and separated from
individual persons that can own property, transact, and hold privileges from the state
(de Jongh 2011, de Jongh 2014). Furthermore, the charter contains a permission to
issue a public offering of shares, grants all residents of the Netherlands the right to

8 Some of the sources count 14 voyages and 65 ships.
9 The question of whether the incorporation also entailed limitation of liability is
debated among scholars. See, for example: (de Jongh 2011) and (de Jongh 2014).
subscribe to such shares, and locks-in the capital so raised for a period of ten years – a long duration yet half the longevity of the corporate entity.

Each city-based VOC Chamber opened its share subscription counters and its own share registry following the issuing of the charter (see Figure 4.2 below). The active members of the VOC, those who were active partners in the pre-companies, led the marketing of shares and opened subscription offices. Information about the new company, the lucrative Asian trade, and government support was circulated in various ways. By the last week of August 1602, mania had erupted. Altogether, 6,424,588 guilders was raised across all six chambers (McCusker 1978, Denzel 2010).

<table>
<thead>
<tr>
<th>Chamber</th>
<th>Capital (in Guilders)</th>
<th>Number of Subscribers</th>
<th>Average value of individual share (in Guilders)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amsterdam</td>
<td>3,679,915</td>
<td>1143</td>
<td>3,220</td>
</tr>
<tr>
<td>Middelburg</td>
<td>1,300,405</td>
<td>264</td>
<td>4,926</td>
</tr>
<tr>
<td>Enkhuizen</td>
<td>540,000</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Delft</td>
<td>469,400</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Hoorn</td>
<td>266,868</td>
<td>?</td>
<td>?</td>
</tr>
</tbody>
</table>

10 The joint-stock capital raised by the EIC in 1601–12, £464,284, is lower than that of the VOC. It is equivalent to about 4,750,554–5,049,088 Guilder based on the lowest and highest exchange rates between pound and guilder in the period 1603–10: 10.232 pounds per guilder and 10.875 pounds per guilder.
Figure 4.2 also shows the number of subscribers in Amsterdam chamber and Middelburg chamber (for which subscription books have survived), and calculates the average value of an individual share (in guilders). The capital and the number of investors were far higher than in any previous Dutch enterprise or the recently-established EIC, or any other known Eurasian trade enterprise.

It is very likely that some of the money came through social networks. But the number of investors, the fact that many of them came from professions that were not connected to trade and the wide geographical area from which investors came, suggest that they were quite heterogeneous in their previous connection to the bewindhebber (den Heijer 2005, Van Dillen 1958). It seems that many investors decided to place their money with an anonymous company – on the basis of business plans – and not with familiar faces. This was a major shift from personal to impersonal collaboration – from a local bewindhebber attracting a few familiar passive investors in a pre-company, to a united VOC with approximately 70 bewindhebber, about 1,800 shareholders, and a huge capital of nearly 6.5 million guilders coming from six cities.

The initial public offering of shares was not accompanied by additional offerings. The original capital was 6,424,588 guilders; and 90 years later, in 1693, it was still 6,440,200 guilders (the slightly increased sum resulting from technical adjustments). Unlike in the EIC the VOC’s activities and investments throughout the 17th century were financed through retained profits and loans, and not through the raising of additional equity.

The first profits account was set to be conducted after ten years. Investors were locked-in, allowed to withdraw their capital, principal, and profits from the company at that exit point but not before, and their full exit was dependent on raising capital from the new investors in a second joint-stock. The investors in the first joint-
stock were not allowed to simply strip and divide the VOC assets at the end of any voyage, and not even in 1612. Shareholders were not entitled to accounts at the end of each voyage, which meant they were not entitled to information or dividend, the latter being at the discretion of the active shareholders (den Heijer 2005). In fact, dividends were distributed only once in the first ten years, in 1610, and even then they were in-kind (pepper) and not in cash (Van Dillen 1935, Gelderblom and Joost 2011).

The VOC governance structure (see Figure 4.3 below) reflected the fact that it was a horizontal merger of preexisting pre-companies. It had six city-based chambers, one in each of the cities in which bewindhebbers who invested in the pre-companies resided. Each chamber had two classes of VOC shareholders: bewindhebbers and participanten. As in the pre-companies, the bewindhebbers had the status of directors/governors and took an active role in management of the chamber; the participanten were not allowed to take part in decision-making. The bewindhebbers of each chamber met regularly to discuss managerial issues, while there was no general meeting of all the shareholders, either on the chamber or corporate level, and thus participanten had no access to information and no voting rights.

Each chamber had an Assembly of Directors (with seven–20 members, based on size as decreed by the VOC Charter) and various offices and services, such as an audit office, treasury, warehouses, and shipyard. The VOC had a central management function, the board of directors known as the Heren XVII (the Seventeen Directors), which was in charge of general policy (Gaastra 2007). These directors operated in assembly and through committees, and were assisted by an advocate. Only chamber governors were eligible to serve as VOC directors. The managerial structure of the VOC reflects both the fact that it was a merger of preexisting companies and that it was oligarchic, having two classes of shareholders.

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11 More accurately, bewindhebbers were required to hold a minimum amount of shares – 1,000 Flemish pounds (500 for Hoorn and Enkhuizen) – to qualify for their status. They could not sell their status as bewindhebbers in the market. That status was hereditary. They were allowed to buy a larger share in the profits but they could not, by this, gain more voting power.
The active shareholders offered passive investors no voting rights, no information on trade, no account of profits, and thus no share in control (den Heijer 2005). The VOC was also being used by the financial–political elite to promote the military, religious, and political aims of the republic and the provinces (Adams 2005). It was not managed as a purely profit-maximizing enterprise. Even when the VOC was doing well and making profits, its dividend policy was very restrictive, as described earlier. The active shareholders used their positions as both merchants and city magistrates to exercise political influence on provincial and federal governments and to unilaterally lock-in the external investors by way of the original charter and locked-in the passive investors again in 1612 at the end of the ten-year period.

Once locked-in again, the passive investors became agitated. The demand of the passive investors to participate in management was avoided throughout the first joint-stock and again in 1612 (Gepken-Jager 2005, den Heijer 2005). The passive investors did not achieve much in terms of the release of the lock-in and the focus on profit maximizing.

They were more successful with the exit option. There appears not to have been any significant trading in shares of pre-companies, probably for three main reasons: the pre-companies were limited in time to one venture; the number of members of each was small; and they were personally connected and unwilling to include outsiders. The VOC was a much larger and more impersonal enterprise. Its
shares were not bearers’ shares, and no share certificate was issued to holders (Van Dillen 1958). Thus, no physical asset could be conveyed by private contract.

However, its charter included a clause that allowed transfer of shares by registering the transfer in the VOC books in the presence of two directors and subject to the payment of a small fee. Shortly after the formation of the VOC, its shares were traded in the various city chambers. An important study by Gelderblom and Jonker convincingly documented the volume of Amsterdam Chamber VOC shares traded in the years 1603–12 (Gelderblom and Jonker 2004). Roughly 0.5 per cent to 1.5 per cent of the shares were traded every month. Nearly 33 per cent of the shares changed hands in the first decade. The Amsterdam stock market became sophisticated, with full-time brokers, a meeting place, and several non-spot transactional designs (Gelderblom and Jonker 2005). The Amsterdam Beurs building was built in 1611, shortly after the establishment of the Bank of Amsterdam (Wisselbank) in 1609. The Tulip Mania of 1636–37 manifested the sophistication and centrality of the Amsterdam markets (de Vries and van der Woude 1997, Garber 2000, Neal 1990).

The VOC's charter was renewed in 1622 and then again on several occasions during the 17th century and beyond. The monopoly was extended as part of the extended charter (Gaastra 2007). By 1610, some 76 ships had been sent by the VOC to Asia around the Cape, and 117 in the following decade (de Vries and van der Woude 1997). The VOC was able to beat the Portuguese, at sea and on shore, to conquer many of their factories and forts – including Malacca, Hormuz at the entrance to the Persian Gulf, Galle in Sri Lanka, Quilon and Cochin on the Malabar Coast, Southern India, and parts of the Spice Islands (Moluccas) – and to establish its presence from the Cape of Good Hope and the Persian Gulf to Formosa and Japan. Batavia (modern-day Jakarta) in Java became the headquarters of the VOC in Asia. It was the hub of Dutch inter-Asian trade and the informational hub of their entire Indian Ocean and Cape Route business and eventually of the Dutch Asiatic Empire (Parthesius 2010).

The VOC rose to the position of the leading player in the Cape Route trade of spices and silver, sending more than 230 ships per decade eastward in each of the last four decades of the 17th century. Altogether, an unprecedented number of 1,770 ships were sent eastward by the VOC during the 17th century. It became a major player in the Indian Ocean trade of silk, porcelain, cloth, and precious metals, with a presence
in Japan, China, Taiwan, the Spice Islands, Java, Sri Lanka, India, and other locations (Findlay and O'Rourke 2007).

Before turning to the utilization of the new joint stock type of corporation elsewhere in Europe I would like to assess the difference in the details of the design between the VOC and the EIC and to explain these differences (Harris 2009). The VOC, supported by the state, could lock-in investors and legitimize a hierarchical and oligarchic governance structure. The EIC, lacking strong state support, could not lock-in investors. Thus it had to attract investors again and again to invest in the joint-stock of each voyage made by the EIC. It had to base itself on fully voluntary cooperation and to offer outside investors a more democratic and participatory governance structure. While passive shareholders of the VOC had no voting rights the shareholders of the EIC were offered voting rights. While the passive shareholders of the VOC had no access to trade information and to financial accounts, the members of the EIC received information and accounts in general annual meetings and ad hoc meetings.

The initial investment of the shareholders of the VOC was locked-in ex-post by the Dutch state for ten years that was later prolonged for the entire 21 years' duration of the first charter. Due to the involuntary nature of the lock-in and the protests that followed it the VOC had to provide the locked-in passive and voiceless investors with an exit option by developing a liquid secondary share market. The VOC offered liquidity that did not amount to withdrawing the initial investment (and in fact even the accumulated profits) but only a transaction in the shares that reflected in the pricing of the imposed lock-in. The exit option through the sale of shares in the secondary market was introduced because of the need to offset the lock-in of capital. The option was exercised with growing frequency by passive investors, partly offsetting the oligarchic and non-voluntary effects of the other institutional features of the VOC. The VOC profitability was most likely higher because it could invest in longer term activities and facilities. And it was reflected in the eventual dividend (Dari-Mattiacci, Gelderblom, Jonker and Perotti 2016).

The EIC offered a full withdrawal option of principal and profit at the end of each voyage. But this meant that there was no longevity of the joint stock and this affected the ability of the trade enterprise to expand, invest in infrastructure, increase volume of voyages and goods and ultimately its profitability. Because it was managed as an investors' club and did not have to provide liquidity through a stock market the
EIC did not give rise to a secondary share market in England. The financial design of the early EIC was not followed by future business corporations but the governance structure of the EIC was the basis for development of modern corporate governance (Harris 2005b). The different design of the EIC and the VOC resulted from the different political environment and the different financial environment, which caused differences in the governance model and in the financial design between the two companies.

THE REST OF EUROPE

The English and Dutch models of organizing Eurasian trade, the EIC and the VOC, attracted attention throughout Europe. There were attempts to imitate the successful models, but as we shall see in this section, the copies were not nearly as successful as the original, and most failed. I identify two types of failed attempts. The first type, in Portugal, France and the Habsburg Empire, failed because it was initiated in an absolutist state that was unable to credibly commit not to expropriate the company's assets. The second type was in fact an attempt by English and Dutch interlopers to bypass the trade monopoly imposed by their countries through incorporation in foreign jurisdictions.

The shift in Portugal from a trade that was fully controlled by the King to the corporate form of organization was a reaction to a decline in trade and shipping in the face of successful competition in the early 17th century from the expanding VOC and EIC. (De Silva 1974, Disney 1977) In 1628, the Portuguese Crown incorporated an East India Company (Companhia do comércio da Índia) for 12 years. King Philip III granted the company monopoly over the main Asian goods, including pepper, cinnamon, coral, and ebony. He committed to invest in the company and not to withdraw his share of the profits before the end of the 12-year term nor to intervene in the management of the company. These privileges and commitments were meant to make the Portuguese company attractive to private investors, yet it was unsuccessful in raising sufficient capital from outsiders. Most of the capital, about 80 per cent, was eventually invested by the Crown, and much of the rest was invested by other public bodies such as towns and villages. The company was never fully separated from the state, its capital, its aims, or its personnel. Ultimately, it was unable to attract enough private investors and was dissolved five years into its 12-year term, in 1633.
In France unsuccessful companies for trade with Asia were formed in 1604, 1615, and 1626. A somewhat more successful company was set up in 1642 and renewed in 1652, but it seems not to have been active beyond the island of Madagascar. The most significant French Company, Compagnie des Indes Orientales, was planned by Jean-Baptiste Colbert and chartered by King Louis XIV in 1664 for 50 years, with a monopoly for trading between the Cape of Good Hope and the Straits of Magellan. It resulted from the fusion of three earlier companies, the Compagnie de Chine, the Compagnie d'Orient, and the Compagnie de Madagascar. It was influenced by the model of the VOC; but before long, the state assumed influence over the affairs of the company at the expense of the shareholders (Conac 2005). The King personally contributed one-fifth of the capital, decided on the distribution of dividends, and forced shareholders to make additional payments on shares. The French East India Company established factories in today's Réunion and Mauritius in the Eastern India Ocean and in Pondicherry in southern India. The French East India Company was dissolved in 1723. The company was, at most, a joint private–public enterprise like that of the Portuguese.

The Holy Roman Empire, in its Habsburg Court in Vienna, began in 1625 an initiative to form an East India Company. It negotiated with the Hanseatic cities and with the King of Spain. The proposed company was inspired by the models of both the EIC and VOC. But the endeavour was terminated in 1629 with the closure of the Hanseatic Diet (Amend-Traut 2012).

The Danish East India Company (Dansk Østindisk Kompagni, or OK) was established in 1616 and lasted until 1650 (Sørensen 2005). It was initiated by two Dutch immigrants from Rotterdam; its design influenced by the VOC model and its governance structure oligarchic. The Brandenburg Company, established in 1682, was Dutch-dominated, despite its Prussian base, and ended up being more involved in Africa than in Asia (Bergfeld 2005). It was succeeded in 1752 by the Emden Company that traded primarily with Canton in China. The Ostend Company was chartered in 1722 by the Habsburg King Charles VI. It was an Austrian–Flemish trading company for trade with the East and West Indies, and its capital was raised mostly from merchants in Antwerp and Ghent. It sent out 21 ships before suspending its activity in 1731 due to British political pressure. The Swedish East India Company (SEIC) was established in 1731 by a Scottish merchant, a former supercargo for the Ostend Company who wished to take advantage of the vacuum created by its
liquidation. The base of the SEIC was in Gothenburg, and all incoming and outgoing ships had to go through that port. It traded mostly with Chinese goods, primarily tea.

The other European companies took the form of either the EIC or the VOC model. Some of the companies, the Portuguese, French, Habsburg, were formed in absolutist states in which the King was highly involved, expropriation was immanent, and companies were not really separated from the ruler (and did not take off). Some of the companies, the Danish, Brandenburg, Ostend, and Swedish, were more of a platform for groups of interlopers from Britain, the Dutch Republic. They were operating in the 18th century environment of well-known routes and markets and routinized trade, in which the corporation was more of a rent-seeking monopolistic enterprise than an efficient enterprise using the joint-stock corporation form to cross entry barriers and engage in a trade otherwise inaccessible to individuals.

In Portugal, France and the Habsburg Empire the Crown was too absolutist and unconstrained and thus failed in establishing a long-lasting East India Company. In England on the other hand the nascent rule of law, manifested in the form of ancient constitution, Parliament and the common law courts, restrained the Crown (Harris 2013). Similarly, in the Dutch Republic the division of powers within the federal structure and the political partnership between the landed and commercial elites constrained the state. In Portugal, France and the Habsburg Empire there were no similar restrains on the Crown and this undermined the Crown's ability to credibly commit not to expropriate the privileges granted by the charter and assets of the passive investors once pooled together in East India Companies. Thus in most parts of Europe, with a notable exception in the form of England and the Dutch Republic, private passive investors were not willing to invest in large enterprises trading with Asia.

CONCLUSION

The EIC and the VOC were incorporated by state charter in 1600 and 1602 respectively. They were involved in similar business activities, namely oceanic trade in high-value goods between Europe and Asia, via the Cape Route (Brenner 1993). Both were organized as joint-stock corporations, with huge capital and hundreds of shareholders. The formation of the companies was a crucial juncture in the history of business organizations and stock markets. The two entities were significantly larger,
in terms of capital and number of shareholders, than any earlier merchant company in
England or the Dutch Republic or anywhere else globally. They were much larger
than any other Eurasian trade enterprise of the 17th and 18th centuries. They remained
the largest business corporations of any sector in Europe for the next two centuries
and served as the basis for the formation of the British and Dutch Empires (Prakash

The environmental challenge faced by the English and the Dutch upon
wishing to enter Cape Route oceanic trade with Asia was immense. They were located
at the very far end of Eurasia, hence their shipping and trade costs and information-
obtaining costs were the highest, and their turnover time was the longest among all
Eurasian merchants. Given their latitude, the goods they could offer (sheep wool and
Atlantic cod) were least in demand. They were the last to enter the trade and thus had
to be able to cross significant entry barriers in the form of competitors and
knowledge. They could not rely on rulers to fund their enterprise, either by way of
taxes, as did the Chinese, or by a combination of taxes and sovereign borrowing, as
did the Portuguese. Family firms and partnerships were not well suitable for the task.
A major institutional innovation was required in order to overcome these prohibitive
environmental challenges.

The first essential building block for that innovative institution was the legal
concept of corporate personality. This concept was well established in Europe by
1600. The corporation was by then recognized as a legal personality that was distinct
from the individual and the family on the one hand and the Crown and the state on the
other. This concept was formulated in late mediaeval Europe in order to provide for
the constitutional needs of the Roman Catholic Church. It was developed as a
platform for an immense organization that was at the same time highly hierarchical
yet detached from any political ruler. The corporation provided longevity, device for
asset pooling and the basic delegated governance structure.

The other key innovation that was formulated in the first few decades of the
17th century was financial. The joint-stock capital was a system of accounting and an
investment tool. It was a tool for pooling together equity investment from hundreds of
investors. It was also a system for splitting profits and bearing losses.

An essential pre-condition for the establishment of private or semi-private
corporation with joint-stock of the scale of those of the EIC and VOC was a credible
commitment by the state not to expropriate that concentrated and liquid joint-stock. A
fear from expropriation would prevent the pooling together of liquid assets of such a
scale in the form of the joint-stock capital of these companies. In England a nascent
rule of law promoted by the common law court and Parliament constrained the
Crown. In the Dutch Republic it was the federal structure of the Republic together
with the political clout of the merchant elites.

The marketing of shares, in the joint-stock was done not only on a personal
basis, as was traditionally done, but also on an impersonal basis. Subscription was
opened in public spaces and advertising was calling potential investors to join in. In
both England and the Dutch Republic passive investors in their hundreds, often
previously unconnected to overseas trade, often not relatives of the insiders, were
willing to invest based on the institutional structure of the EIC and VOC and on their
business prospects. This was a transformative moment in human history, from
investment on personal basis to investment on impersonal basis.

The investment in the very long-distance Asian trade created a de facto lock-in
of capital for one voyage that was soon followed by legal lock-in of capital for several
voyages and for durations of a decade and more and eventually permanently. The
lock-in of capital was mitigated by liquidity through a young and emerging secondary
stock market. It was also mitigated by some level of voice in the form of voting rights
and information flow in the form of accounts and reports in general shareholder
meetings.

One should note that, contrary to some confusion in the historical literature,
the modern doctrine of limited liability had not yet emerged at this stage. The EIC and
VOC did not rely on debt finance and no conflict of interest between equity holders
and creditors was in sight. Some degree of asset-partitioning could be assumed from
the fact that the companies were legal entities that were separated from their members
and no indication was given in the charters as to the right of creditors of members to
dissolve ether the EIC or the VOC or to withdraw any of its assets.

The EIC and the VOC pushed forward the institutional cutting edge. They
advanced due to necessity and through learning by doing and by failing, the modern
joint-stock business corporation. Within a little over half a century the corporation
that was hitherto used for various municipal and semi-public purposes was fully in
use for business, for-profit, long-distance trade purposes. The transformation
integrated into the corporate form most of the basic features that are identified as
those of the business corporation today.
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