

Development of Corporate World in the Indo-Pak subcontinent through the Managing Agency System: A Historical Perspective

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Abstract

This article has been written to explore the causes and consequences of rise and fall of the managing agency system and its role in the development of corporate world in the Indo-Pak Subcontinent. The following paragraphs will discuss in detail the emergence, development and elimination of the managing agency system in this region.

Though the managing agency system had been abolished from the Indo-Pak Subcontinent but it played such an important and unforgiving role in development of the corporate world and development of basic industrial structure that a detailed account of its rise and fall will help the reader to fully understand the corporate history of this part of the world.

Introduction

During the process of establishment and development of corporate world in the Indo-Pak Subcontinent many experiments were made for promotion and management of the corporate form of business organization [Rungta, 1970]. Ultimately, Managing Agency System emerged and generally accepted as the only way of promotion and management of the "Corporation".

In the corporate literature on the Indo-Pak Subcontinent, there is a lack of consensus on the origin of the managing agency system. The origin of the managing agency system was obscure [Anstey, 1952], result of an evolution [Lokanatham, 1935], dates back to the East India Company [Basu, 1953], traces of it, in embryo form, can be found as early as the eighteenth century [Sinha, 1927], emerged and grew in the second half of the nineteenth century [Das, 1961; Shukla, 1998], foundation of the system was laid by British [Tripathi & Mehta, 1990] and the subject of speculation and vague generalizations [Rungta, 1970].

Contrary to the origin of the managing agency system, the corporate literature on the Indo-Pak Subcontinent exhibits unanimity on the peculiarity of this system. The system arose out of the prevailing

circumstances and no other counter part to the system was existed before [Sinha, 1927; Lakanatham, 1935; Anstey, 1952; Basu, 1953; Rungta, 1970, Tripathi and Mehta, 1990; and Shukla, 1998].

Generally, managing agencies were established at the time of promotion of corporations. In the Indo-Pak Subcontinent there was no promoter for corporate form of business organization in the same sense as in Great Britain or any other country. A managing agent had occupied the place of a promoter of a corporation. Groups of persons, a syndicate or a firm of managing agents were always taking the initiative for floating a corporation. Before going to public, the managing agents (promoters) of a corporation were conducting research and experiment, and undertook all expenditures and risks. After satisfaction that the promotion of a corporation would be profitable, intermediate stage that of a private corporation followed, before finally going to public. Till it might be brought to the profit earning stage, a corporation carried on as private venture for sometime.

Finally, a corporation was launched upon the public. In comparison to this practice, in the West promoters launched a corporation and interested only in successful issue. Once process of promotion completed and promoter rewarded by cash or the allocation of stock in the corporation, promoters ceased to take any interest in the concern. Prosperity and adversity of the business in the later years was entirely a matter of indifference for them. Whereas, in the Indo-Pak Subcontinent managing agents had played three important roles: promoters, capitalists and managers [Basu, 1953; Shukla, 1998].

The Rise of Managing Agency System

The rise of the managing agency system was due to the fact that it filled the role of promoters and pioneers of the newly established and emerging industrial sector of the Indo-Pak Subcontinent. The system came into prominence, because only this system could supply a regular team of entrepreneurs and, trained and efficient managers. The capital market was shy and the industrial sector was looking on them for financial assistance. The prevalence and continuance of the managing agency system had been due more to this last factor than to any other. Other financial institutions, like banks were not prepared to finance the long-term need of the newly born industrial sector and were unable to provide anything more than

'circulating capital' for short period. On the other hand, many firms were under capitalized at the very outset and needed financial assistance and guarantee at every stage of their work. So, the managing agency system came forward to dominate industrial sector of the Indo-Pak Subcontinent

In the absence of an investing class [Rungta, 1970] and well-organized capital market [Shukla, 1998], only managing agencies played the role of suppliers of industrial finance [Basu, 1953]. The managing agencies invested in the initial fixed capital expenditures, working capital, subsequent reorganization, extension and modernization. Finances were provided by the managing agents, their relatives and friends [Shukla, 1998]. This is evident from Table I, II, III and VIII.

The managing agencies by agreement with the corporations promoted became responsible to manage them. The paucity of the managerial talent in the Indo-Pak Subcontinent compelled managing agents (promoters) to take up the management of corporations. The British Managing Houses brought the managerial ability and experience of Britain, who were the pioneer of the industrial development due to the Industrial Revolution. This practice of managing corporations by managing agencies was known as group management. Under the Group Management, many corporations of the same group could utilize the services of one expert. The group management also resulted in a substantial measure of administrative integration, a main feature at its best of the managing agency system [Shukla, 1998].

Historical Development

Around the beginning of the seventeenth century, the European corporations for trade with the Indo-Pak Subcontinent were established. Their operations, low purchasing power of their currency and contact with the local population due to inadequate familiarity to the region, were limited in the beginning. These circumstances reduced their ability to have any major impact on behavior of native businessmen. However, with the British occupation of Bengal in 1757, business horizon changed for them. Their trading activities were expanded with the expansion of British rule over the whole Subcontinent of Indo-Pak.

During the second half of the eighteenth century, the British Agency Houses were established in the presidency cities of Kolkata, Mumbai and Chennai. These adjuncts of London-based British firms were

either established by the free traders or by those employees of the East India Company who resigned their positions to engage themselves in the trading activities of the Indo-Pak Subcontinent. The basic aim behind the setup of these Houses was to facilitate remittances to England by Englishmen residing in the region. But since this in itself would yield little profit, these Houses entered in trade and commerce. All diversified operations, such as steam shipping, banking, insurance, farming and manufacturing, were carrying-on [Tripathi & Mehta, 1990].

In the beginning the British Agency Houses confined their activities to the South (Bengal, Assam and Bihar) for developing coal, jute and tea plantation. Their activities were extended to North (particularly Delhi and Cawnpore) and Chennai. Simultaneously, the Managing Agency Houses of Indian origin in the West followed their lead towards Ahmedabad and Mumbai [Shukla, 1998]. For details see Table IV and IX.

Concentration of the Economic Power

The economic strength of the managing agency system was based on the fact that it favored the concentration of power in the hands of a small number of business magnets. The best example of which is interlocking directorates. For example, in Mumbai during 1871, the composition of boards of directors (BoD) of 45 corporations, with an average of 5 directors on the BoD, 131 persons were holding a total of 223 directorships available on the boards of these corporations [Rungta, 1970]. These were further divided in to European directors and Local directors. Maximum number of directorships held by one European was three, whereas one Local director was holding 11 directorships.

According to the Times of India Directory [1872], in Mumbai during 1871, 25 managing agencies were managing and controlling 48 corporations. Out of these 25 managing agencies, 16 managing agencies were European and remaining 09 agencies were of Indian Origin [Rungta, 1970]. Similarly, in Kolkata, the hometown of managing agency system, from where the system was first originated [Basu, 1953], there were 31 managing agencies, managing and controlling 90 corporations. During 1895, in Mumbai 70 corporations were managed and controlled by 50 managing agencies. Significantly in Mumbai the number of European managing agencies was reduced from nine in 1871 to three in 1895.

Contrary, in Kolkata, an analysis BoD of 77 corporations with an average of 3 directors a BoD, showed that total of 241 available directorships were held by 148 people. Maximum number of 7 directorships was held by J H Williamson the senior partner of the firm of Williamson, Magor & Company. R. B. Magor, the other partner of the firm, was the director on the BoD of 3 corporations, which were different from those on which Williamson sat. Thus, there were directorships of 10 different corporations between them. Five seats each of directorships were occupied by R. S. Staunton, partner in Staunton & Co; Leo Zender, partner of Robert & Charriol; and C. N. Kernot, by profession a medical doctor [Rungta 1970]. All of them were Europeans. On the other hand, compiled from the Thacker's Bengal Directory [1875], out of five prominent Locals, Peary Charam Mitra and Manockjee Rustomjee were holding 3 directorships each. Whereas, Baiconthonath Sein, G. C. Paul and H. Seal were holding one directorship each.

In Ahmedabad, generally the managing agency system revolved around the family name. For example, the most common names included: Amins, Bajaj, Khataur, Kirlosker Kasturbhai Lalbhai, Mefatlals, Mahindra, Sarabhais, Shahpoorji Pallonji, Tatas, Wadias and Walchand Hirachad. Though with separate and independent legal identities, several corporations were controlled and managed by a single family under this system [Tripathi & Mehta, 1990]. For names of 17 Top Managing Agencies see Table VI.

J N Tata experimented with a new form of corporate management in the Empress Mills. Instead of adopting the managing agency framework, very popular with Indian Textile producers, Tata for a number of years, looked after its affairs as "Managing Director," reporting to the BoD and drawing a nominal salary. This however, was too revolutionary; an innovation under the conditions prevailing in the Indo-Pak Subcontinent then, and Tata eventually had to embrace the managing agency structure. But he refused to follow the common practice of calculating the managing agents remuneration on the basis of sales and introduced the system of charging commission on profits [Harris, 1858], which in due course gained general acceptance in the business of Indo-Pak Subcontinent.

The Fall of Managing Agency System

As promoters of corporation, managing agents had taken all responsibilities and risks of pioneering. Till the great depression of 1930's, almost all industrial corporations were promoted by the managing agencies of the Indo-Pak Subcontinent. The rise and growth of industries were the result of their initiative, courage, drive and credit. As the only class of promoters, they began to lose grounds by the 1930's [Shukla, 1998].

The managing agency system rendered indispensable services to the industrial development of the Indo-Pak Subcontinent, by providing finances. Basu [1953] pointed out the practice of inter-investment of funds by the managing agency system as main defect, especially in the cotton industry. Antsey [1952] blamed the system, which undoubtedly gives special opportunities for exploitation and even fraud. Indian Textile Journal, [Nov, 1899] violently attacked the system as, "we have in these columns exposed again and again the rascality and rank dishonesty with which large sections of our mill industry are saturated" [Anstey, 1953:592]. Pointing out the various defects of the system and raising the concerns of stockholders, Rungta [1970], deemed the system as the bane for the corporate world.

The managing agency system grew out of the economic forces operating in the Indo-Pak Subcontinent. As economic conditions of the region improved, the working of the managing agency system became worse [Shukla, 1990]. The abuses that cropped up as the system grew older, strangely enough the corporate law lagged far behind, moved too slowly to catch up.

In the Companies (Amendment) Act of 1936, first time the powers and functions of managing agents were regulated. However, these restrictions proved inadequate against the misuse of power by the managing agencies. In result the demand of the public for abolition of the managing agency system was grown day by day.

Even after the independence of Indo-Pak Subcontinent into Pakistan and India (later on Bangladesh) the managing agency system was operated in Pakistan. Ultimately it was abolished in January 1972 [Hashmi and Ahmed, 1984]. All managing agencies were declared illegal and the management of corporations was taken over by the boards of directors. In

this way a long journey of managing agency system was completed and it became the "Lost World".

Conclusions

It may, therefore, be concluded that the goal in this article has been to bring in limelight the unforgettable role of the managing agency system in the development of the corporate world from which industrial base of the Indo-Pak Subcontinent was emerged. The managing agency system rose on the ruins of the old "agency houses". The system was adopted to overcome the shortage of corporate entrepreneurship and corporate finance. The managing agency system was found as an excellent framework within which corporate world was developed. The system fulfilled three basic functions in the industrial economy of the Indo-Pak Subcontinent: entrepreneurship, finance and management, for the smooth and successful running of the corporate world.

Throughout the whole period of the growth and development of the managing agency system its share in the promotion and management of the corporate sector rapidly increased. But with the passage of time as the indispensability lessened due to the easing of economic forces in the Subcontinent, corporations were promoted and managed without managing agencies. It is highly tempting to conclude from this that the managing agency system was not indispensable in the changed environment and as such the Subcontinent would not stand to lose by its overthrow, if decided upon on quasi-economic or non-economic considerations. Owing to the non-availability of sufficient historical data, however, a contention that the managing agency system was losing its utility over time can not be empirically tested to be significantly valid. Of course, in fairness to scientific justice it must be observed that mere numbers are not always significant.

For arriving at the negative conclusion hinted at above, it would be required to show that over time the proportion of the region's total investment invested in agency managed corporations had successively declined. I must admit that I cannot do that. Nevertheless, the empirical fact stands that, in changed economic environment, there was no reason why a newly floated corporation having managed under the managing agency system, should be more efficient than one which could be similar

in every other respect except in having managed under the managing agency system.

Table - I

**Coverage of Corporations by Managing Agencies
In Indo-Pak Subcontinent
(Paid-up Capital in Crores of Rs.)**

	Public		Private		Total	
	No.	Paid-up Capital	No.	Paid-up Capital	No.	Paid-up Capital
Corporations under the control of Managing Agents	4091	439.0	964	26.4	5055	465.4
Total Corporations at work	10056	662.5	19569	308.3	29625	970.8
Total Corporations at work.	9178	616.6	19464	307.3	28642	923.9
1 as % of 2	40.7	66.3	4.9	8.6	17.1	47.9
1 as % of 3	44.6	71.2	4.9	8.6	17.7	50.4

Source: Basu, S. K., [1958], "The Managing Agency System: In Prospect and Retrospect", the World Press (Pvt) Ltd., Kolkata, India.

Table-II

**Managing Agencies and their managed Corporations
(Paid up Capital in '000 Rs.)**

Class of Corporations	Managing Agencies		Managed Companies					
	No.	Paid-up Capital	Public Cos. No.	Paid-up Capital	Private Cos. No.	Paid-up Capital	Total Cos. No.	Paid-up Capital
Public	184	440651	444	1084975	60	67512	504	1152487
Private	1238	320428	1464	2434319	316	115597	1780	2549916
Unincorporated Firms	2522	-	2183	870814	588	81134	2771	951948
Total	3944	761079	4091	4390114	964	264243	5055	4654351

Source: TRIPATHI, DWIJINDRA, and MEHTA, MAKRAND [1990] "Business Houses in Western India: A study in Entrepreneurial Responses, 1850- 1956", Manohar Publications, New Delhi, India.

Table-III**Overall Position of Managing Agencies in the Indo-Pak Subcontinent
(Paid-up Capital in Crores of Rs.)**

Class of Managing Agencies	Managing Agencies		Private Managed Companies		Public Managed Companies		Total Private and Public Managed Companies	
	No.	Paid-up Capital	No.	Paid-up Capital	No.	Paid-up Capital	No.	Paid-up Capital
Unincorporated Managing Agency Firms	2522	-	588	8.1	2183	87.1	2771	95.2
Private Managing Agency corporations	1238	32.0	316	11.6	1464	243.4	1780	255.0
Public Managing Agency Corporations	184	44.1	60	6.8	444	108.5	504	115.2
Total	3944	76.1	964	26.5	4091	439.0	5055	465.4

Source: SHUKLA, M.C. [1998], *Business Organization and Management*, S. Chand and company, New Delhi, India.

Table – IV

State-wise details of Managing Agencies shows According to number of companies managed by them

Name of the State	No. of Managing Agencies Having						Total
	1 Co.	2-9 Co.s	1-9 Co.s	10-24 Co.s	25-40 Co.s	10-40 Co.s	
West Bengal	1372	214	1586	11	4	15	1601
Mumbai	755	79	834	1	-	1	835
Madras	397	40	437	-	-	-	437
Uttar Pradesh	186	3	189	1	-	1	190
Delhi	156	7	163	-	-	-	163
Madhya Pradesh	112	5	117	-	-	-	117
Punjab	81	14	95	-	-	-	95
Bihar	62	3	65	-	-	-	65
Travancore-Cochin	52	10	62	-	-	-	62
Mysore	58	2	60	-	-	-	60
Rajasthan	57	2	59	-	-	-	59
Hyderabad	48	6	54	-	-	-	54
Andhra	38	5	43	-	-	-	43
Orissa	43	-	43	-	-	-	43
Madhya Bharat	31	7	38	-	-	-	38
Assam	30	1	31	-	-	-	31
Saurashtra	20	1	21	-	-	-	21
PEPSU	11	-	11	-	-	-	11
Ajmer	7	1	8	-	-	-	8
Himachal Pradesh	4	-	4	-	-	-	4
Bhopal	2	1	3	-	-	-	3
Vindhya Pradesh	2	-	2	-	-	-	2
Kutch	1	-	1	-	-	-	1
Manipur	1	-	1	-	-	-	1
Total	3526	401	3927	13	4	17	3944

Table V

**Frequency distribution of Managing Agencies,
(Classified on the basis of their legal forms),
According to the number of Corporations managed**

No. of companies managed	Unincorpora ted managing agency firms	Private managing agency companies	Public managing agency companies	Total
1	2350	1039	137	3526
2-9	172	192	37	401
1-9	2522	1231	174	3927
10-24	-	6	7	13
25-47	-	1	3	4
10-47	-	7	10	17
Total	2522	1238	184	3944

Table-VII

**Correlation of Size of Managed Corporations with that of Managing
Agencies**

	Paid-up Capital	Under Rs. 1 Lakh	Rs. 1 lakh and under Rs. 10 lakhs	Rs. 10 lakhs and under Rs. 25 lakhs	Rs. 25 lakhs and under Rs. 50 lakhs	Rs. 50 lakhs and under Rs. 1 crore	Rs. 1 crore and above	Total
Managing Agency companies	Under Rs. 1 Lakh	584	441	117	41	26	3	1212
	Rs. 1 lakh and under Rs. 10 lakhs	78	210	76	34	25	10	433
	Rs. 10 lakhs and under Rs. 25 Lakhs	9	49	33	22	17	5	135
	Rs. 25 lakhs and under Rs. 50 Lakhs	21	63	39	24	9	6	162
	Rs. 50 lakhs and under Rs. 1 Crore	16	80	36	23	7	17	179
	Rs. 1 crore and above	1	74	32	24	18	14	163
	Total	709	917	333	168	102	55	2284

Table VIII

The names of giant corporations with Paid-up Capital of Rs. 1 crore and above managed by Managing Agencies with Capital of Rs. 1 crore and above

SNo.	Name of the Managing Agency	Paid-up Capital Rs.'000'	Name of the Managing Agency Company	Paid-up Capital Rs. '000'
1.	Bengal Coal co. Ltd	12000	Andrew Yule and Co.	18000
2.	Calcutta Discount Co. Ltd	20852	-do-	18000
3.	Midnapar Zamindari Co. Ltd	10276	-do-	18000
4.	Buckingham and Carnatic Co. Ltd	19978	Binny and Co. (Madras) Ltd	10000
5.	Burn and Co. Ltd	11200	Martin Burn Ltd.	16096
6.	Indian Iron and Steel Co. Ltd	78832	-do-	16096
7.	Walchand Nagar industries Ltd.	10450	Premier Construction Co. Ltd	10506
8.	Eastern Shipping Corporation	55000	Scindia Steam Navigation co. Ltd	70461
9.	Air India Ltd*	15000	Tata Industries Ltd.	22500
10.	Air India International Ltd.*	20000	-do-	22500
11.	Tata Chemicals Ltd	15215	-do-	22500
12.	Tata iron and Steel Co. Ltd	173390	-do-	22500
13.	Tata Locomotive and Engineering Co. Ltd	61872	-do-	22500
14.	Swadeshi Mills Ltd.	11500	-do-	22500

Source: ANSTEY, VERA [1952] "The Economic Development of India ", Longmans, Green and company, London.

Table-IX

**Control of the Managing Agencies in the Industrial groups with a
total Paid up Capital of Rs. 10 crores or more
(Paid up Capital in crores)**

SNo.	Groups	Joint Stock Companies at work		Joint Stock Companies controlled by Managing Agencies		Percentage share of Paid-up Capital of Companies managed by Managing Agencies
		No.	Paid-up Capital	No.	Paid-up Capital	
1	Artificial Silk	21	10.66	7	10.39	97.4
2	Jute	101	30.13	78	27.62	91.7
3	Cement	30	23.98	13	21.23	88.6
4	Electric Generation and supply	354	34.48	209	30.53	88.6
5	Iron and Steel	318	34.22	85	29.97	87.6
6	Cotton Mills	696	117.21	438	101.12	86.2
7	Water Transport	135	20.47	27	17.83	87.1
8	Paper	74	14.20	36	12.19	85.8
9	Coal Mining	495	22.73	204	18.31	80.6
10	Sugar	212	30.11	106	22.74	75.5
11	Tea	591	27.86	266	16.09	57.7
12	Motor Vehicles	312	15.06	55	8.97	59.5
13	Edible Vegetable Oils	232	10.69	106	5.90	55.2
14	Misc. Machinery	427	18.04	98	8.39	46.5
15	Chemical Fertilizers	57	22.35	21	4.10	18.3

Source: BASU, S. K. [1953] *Industrial Finance in India*, University of Calcutta, Calcutta, India.

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