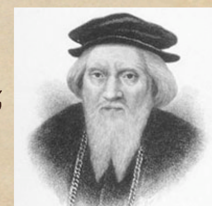
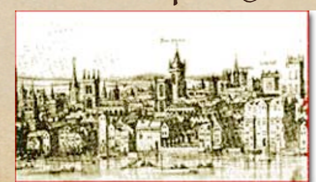
The Joint Stock Trading Company

- The Merchant Adventurers, 1505
    - Each handled own capital; later shared infrastructure.
- The Muscovy or Russia Company, 1553/1555
    - Risks are shared via joint stock: First, one voyage at a time; then for limited periods of years; then permanent.
- Dutch East India Company, 1602
- English East India Company, 1600/1613
- The Virginia Company, 1606


Sebastian Cabot


Sir Francis Drake


London, 1600

The Joint Stock Trading Company

The trade of a joint-stock company is always managed by a court of directors. This court, indeed, is frequently subject in many respects to the control of a general court of proprietors. But the greater part of those proprietors seldom pretend to understand anything of the business of the company.... The directors of such companies, however, being the managers rather of other people's money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honor.... Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company. That a joint-stock company should be able to carry on successfully any branch of foreign trade, when private adventurers can come into any sort of open and fair competition with them, seems contrary to all experience.The only trades which it seems possible for a joint-stock company to carry on successfully, without an exclusive privilege, are those of which all the operations are capable of being reduced to what is called a routine, or to such uniformity of method as admits of little or no variation. - *Adam Smith, The Wealth of Nations* (1776)

• From the very beginning of the joint stock company, the essential role of the board is one of providing assurance - assurance that the firm is what it claims to be, and that the assets of the firm are being managed as their owners have agreed when they provided them.

• Arbitrary Rule of the Stuart Kings: What happens to commerce when kings replace the rule of law.

• The Glorious Revolution: The effects of constitutions on commerce.

• Bubbles and swindles: Joint stock companies can sell shares. The South Sea Bubble (1720).

• Central chartering and central controls for corporate life begin to appear.

- Limited liability and the modern corporation.

- The corporate person and the invention of bankruptcy.

- Berle and Means: The rise of dispersed investing, with the separation of ownership from management.

Evolution of the Relationship of Owners and Managers

- Entrepreneurial capitalism

- Managerial capitalism

- Agent capitalism

Some Elements of Agent Capitalism

- The alignment theory of corporate governance is wrong: Berle and Means were right, but the fix is wrong.

- Managers rewarded like owners become owners, and act like them. Nobody runs the place. Directors and managers in cahoots; shareholders hold the bag.

- So, treat managers and owners differently; separate, don't align their incentives perfectly. Managers act as agents for the firm; directors act as agents for owners.

- Managers practice full-cost management, responding to diverse stakeholders; internalizing costs.

- Institutional and regulatory reforms structure the delicate balance of coordination and conflict between managers and directors.

- Business schools teach both the skills of owners (finance, accounting) and the skills of managers (human resources; strategic planning; operations control; marketing).