THE INFLUENCE OF COLONIAL TRADING COMPANIES
IN THE ESTABLISHMENT AND CONSOLIDATION OF MODERN
JOINT STOCK COMPANIES

Abstract. In today’s society, the theoretical and practical discussions about the largest businesses, such as joint stock companies, are still actual. The structure of the Joint Stock Company was not an artificially created theoretical model. Its appearance was predetermined by a series of economic, political, social and other circumstances under the influence of which this organizational-legal form appeared and developed, gradually acquiring new specific features.

The issues of the emergence of the first joint-stock companies is questionable among scientists. Some consider that the main specific features of Joint-Stock Companies can be seen in companies founded in Nederland at the beginning of the 17th century, possibly only because of their fast and bright, which attracted the attention of the whole Europe at that time


1. Introduction

The issues of the emergence of the first joint-stock companies is questionable among scientists. The Joint-Stock Companies did not exist throughout the human history, they appeared as a result of a high level of development of commodity-money relations. The emergence of the Joint-Stock Companies was a necessity for the concentration of large capitals for trade with colonies and distant countries. This need arose in the era of great geographical discoveries, at the end of the 15th century.
We consider that the **main historical prerequisites** that led to the emergence of modern *Joint-Stock Companies* are the following:

a) the development of production based on the achievements of technical-scientific progress, transformation of all types of basic human activity into a social process, into a common activity in which many people were included;

b) the development of relations based on capital, which actually leads to the transformation of all assets and financial means into forms of capital existence or assets, aiming to bring profit to their owners;

c) the emergence of organizational opportunities for the unification of private capital into a single common and indivisible capital;

d) the emergence of securities markets in the form of foreign exchange markets and Government bond markets.

The emergence of Joint-Stock Companies is the result of the development, step by step, of entrepreneurship from ancient times. With the increase of production activities and the expansion of trade, arose the objective need both to increase the capital held and to develop the forms of organization of the existing businesses.

Including the organizational-legal forms known at that time: shipping companies and trade guilds could no longer satisfy the rising economic interests of the largest European shopping centers.

For these objective reasons, new forms of organization and new types of Business Association have also emerged, which would contribute to the more efficient solution of the emerging commercial requirements. Historically, this new organizational-legal form has become the **colonial company**.

2. Related works

At the time of its appearance, *colonial companies* were not considered a new or special organizational-legal form, since they valued from those existing commercial and maritime companies at that time. However, as they developed, they acquired characteristics of a Joint-Stock Company.

This opinion we share, and a significant part of the scientific community, who are of the opinion that the very first prototype to full-fledged Joint Stock Companies, were the **colonial trading companies** called by the English, and *Joint-Stock*
Companies founded in the sixteenth century and the seventeenth century in England, as well as in Nederland, and France, and later in other countries-the metropolitan, in order to carry out the trade of the colonies, in the region of the East India [Shershenevich G., 2003; Reinhardt R., 1973; Henn G., 2002, etc.].

Therefore, the main stimulus in the invention of a new form of Association of people and capital, catalyzed the beginning of the Era of great geographical discoveries. As a consequence, Europe was invaded by american gold and spices from India and the region of present-day Indonesia. For example, in 1579, the famous Captain Francis Drake went on an expedition to the Maluku Islands (present-day Indonesia) where he traded a lot of exotic spices. Returning to England in 1580, his investors achieved a return of about 5000 percent [Lawson Ph., 1993].

The Russian scientist Polyansky F.Ya., notes that in that period of great geographical discoveries the European market was replaced by new goods, unknown until then: Tobacco, cocoa, coffee, tea, rice, spices. Thus, the volume of deliveries of spices, after the discovery of maritime routes from India to Europe, increased from 210 tons, annually imported by Venetians, to 7000 tons, delivered to the capital of Portugal only in the first commercial year [Polyansky F., 1954].

It is considered that the oldest Joint Stock Company, which issued the first shares in the world, was founded in 1551 in London, England Under the name of Company of Merchant Adventurers to New Lands, (The company of adventurous merchants on new lands), with about 240 investors (adventurers), who bought the shares of 25 pounds each [Morison S., 1971].

The purpose of founding the company was the search for a new Northern trade route to China and the countries of South-East Asia. As a consequence, the northern access route to the Russian market was discovered, which also led to the founding of the Russian port of Arkhangelisk. The company in 1555 was reorganized into the Joint Stock Company, known in history as Muscovy Company (Moscow Company) [Richard H., 1886].

3. Discussion and materials

We consider, however, that the main link in the emergence of modern Joint Stock Companies are the enterprises that appeared in the XVI-XVII centuries, called
by the English Joint Stock Companies (Joint Stock Company), companies with combined capital. By acquiring a share in a commercial enterprise, which had an organizational-legal structure of a Joint Stock Company, the medieval investor obtained the right of joint ownership with other investors.

The birth of a new circular practice (sale-purchase) of similar shares, where the legal basis was the divestment institution, stimulated the founding of a new market with this new product, which turned into a special guarantee-action. We highlight, that this new product (action) had a specific feature – the ability to generate other income.

Income from the Netherlands the word action derives from the Latin actio, which signifies claim and the participation in a Joint-Stock Company of as many creditors with the right to an appropriate share of capital and profit is considered [Gormin A., 2013].

The first Joint-Stock Companies were founded only for a single transaction or a sea voyage, similar to the first Command Companies. Some time, later, these new relationships evolved into long-term transactions, in which shareholders were engaged in business projects for a certain period, but not more than one and a half years, at most two years. Only at the end of the seventeenth century they valued in enterprises that owned share capital shareholder.

The European colonial companies involved in trade with East (Eastern) India had a special influence on the development of corporate shareholder structures. One of the first was the famous English Joint Stock Company specializing in trade in East India, founded by a royal diploma on 31 December 1600, by Queen Elizabeth I of England to Sir George Clifford, 3rd Earl of Cumberland and 215 partners, as The Governor and Company of Merchants of London Trading into the East Indies, known as the English East India Company (1600-1874) [Hunter W., 1908].

The English company of East India was founded with a capital of about 68373 Pounds Sterling (currently it would constitute about 9 million pounds), for a period of 15 years, holding a monopoly granted by the monarch on the English trade with all east countries of the The Head of Good Hope and west of the Magellan Strait. Any merchant who violated this monopoly was seized of the ship and cargo, the
value of which was divided in two, which was equally passed into the treasury of the monarch and the *English Company of East India* [Kerr R., 1811].

The management of this company was carried out by a *Gouvernor* and 24 *directors* meeting on the *Court of Directors* who submitted to the Court of Proprietors, who in fact appointed them to the position.

Based on the model of the *Dutch company of East India*, the *English Company of East India* was transformed and reorganized. The company, in 1685, obtained from the English King James II *corps politique* and broad rights of administration of the colonies: starting with the adoption of legislative acts and provisions, until the war and the conclusion of peace.

Initially, the value of the shares was £ 50, with a capital of £ 1,703,422. Subsequently, the share price increased to £ 100.

From the beginning of the voting rights, were held by each participant, a situation that changed in 1662 when the voting rights were held only by those shareholders who held shares worth at least 500 pounds sterling. In order to apply for the position of director, the shareholder had to hold shares worth at least £ 2,000 [Tarasov I., 2000].

The Supreme management body of the company was *the General meeting of shareholders*, which for the first time in the history of profit-making companies functioned as a management body and not as a collective of business participants, a practice attested until then in many forms of business associations.

The meetings were convened on a concrete known address, with a prescribed procedure, and the decisions of the meeting were adopted by the majority vote of the shareholders. Ordinary meetings were convened, annually, extraordinary meetings were convened as needed. Only *the General meeting of shareholders* could adopt rules on the management of the company and only it had the right to control their compliance.

The representative of the company, the *Gouvernor* was elected by *the General meeting of shareholders* for a period of one year. The Assembly also elected a *deputy-candidate* for *Governor*, who replaced him in case of absence. All new shareholders and company officials took an oath of loyalty to the *English East India Company* [Klyuchko V., 2005].
The English Company of East India, at the time of its founding, can be considered a real Joint-Stock Company, being an enterprise in which periodically accumulated capital for sea voyages by raising investments. Upon the return of the ships, each merchant-shareholder not only made profits, but was reimbursed the share invested in the voyage.

It was only beginning with 1612 that investments-actions were concentrated for a series of future expeditions. Starting with 1658 the share capital did not return to the shareholders. Much later, starting with 1688, the English Company of East India begins the open sale of shares on the Royal Exchange in London, following important organizational innovations and institutionalization [Krinichansky K., 2008].

However, much closer to the organizational and functional structure of modern Joint-Stock Companies was nevertheless the Generale Vereenichde geoctrooieerde Compagnie, known in history as the Dutch Company of East India (1602-1800), being the first official public company to issue large-scale bonds and shares.

It was founded on 20 March 1602 by six Dutch Companies, who wanted to trade in the Indian Ocean area. The patent granted by the country's leadership, which was renewed every 21 years, gave to the Dutch Company of East India an exclusive monopoly in the conduct of sea trade in the area east of the Head of Good Hope and west of the Magellan Strait.

The company was managed by the Council of the twelfth Lords (Heren XVII), consisting of 17 directors and six Chambers located in the localities of Amsterdam, Middelburg, Hoorn, Enkhuizen, Delft and Rotterdam. The formation of the social capital lasted until August 31, 1602, where any resident of the Republic could make contributions, only by simply registering in one of the Chambers how much money he wants to invest, with the possibility of payment in three installments.

In total, a share capital of about 6 440 200 guilders (equivalent to 536 600 pounds sterling, currently would constitute about 71 million pounds sterling) [Bruce J., 1810] was accumulated and paid up by 2146 shareholders by purchasing shares with the value of 300 guilders each, amount that in the future should not be increased or decreased [Heijer H., 2005].
SCIENTIFIC GOALS AND PURPOSES IN XXI CENTURY

For trading issued shares and bonds, in 1602, the Dutch Company of East India founded the oldest Securities Market in the world, the Amsterdam Stock Exchange, which played an important role in the promotion of shares [Braudel F., 1983].

The shares of the company that were the subject of transactions on the Amsterdam Stock Exchange, in fact, were not shares in the contemporary sense known, but receipts confirming the share held by the person. The alienation of shares is achieved by a simple registration in the company's books in the presence of the person alienating it, the future owner of the share and one of the directors.

The main advantage of the Dutch Company of East India, in comparison with other associative forms of business, consisted in the existence of limited liability of the participants for the company's obligations [Elkin S., 2008].

All these facts of the Dutch Company of East India were crowned with good results. Already in 1604 the company's shares were worth 110% of the nominal price, and in 1610 they cost 130% of the initial price, when the Chinese tea, brought from the Port of Batavia, the island of Java, was brought to Europe for the first time.

Subsequently, the share price increased on average by 10% per year. For the first 120 years in the company's history, the share price has risen to 1260% compared to their original price. It is also interesting that until 1644 dividends were paid in kind, with imported goods, and especially with spices, and then they were paid only in cash [Khomutsky V., 2016].

During the first 10 years of activity it was forbidden both to receive new shareholders and to leave the company by the founding shareholders. For its activity, the company was transferred to management the territories of today's Indonesia (Java islands, Sumatra, etc.), the island of Ceylon, part of the colonies of India (Calcutta) and Thailand, as well as the exclusive right to trade with Japan, and later with China. It is claimed that the Dutch East India Company was the first company to pay dividends on issued shares in the amount of 18% [Rosca N., 2017].

As for the management of the company, the formation of the special bodies was established, as well as the delimitation of their activity. Each of the six Chambers acted independently in the management of the business, provided notice
to the shareholders and distributed the dividends only to the shareholders registered in this Chamber.

Since the company was founded, shareholders had only Property Rights, confirmed by the shares held, and participation in management was not allowed. That is, for the first time, the right of ownership in a company was separated from the right of administration and control.

Between directors there was a clear distribution of service obligations, and cumulation of positions in the company and kinship between directors was not allowed.

*The Council of the twelfth Lords* presented reports on the company's activities at a *Shareholders’ meeting*, which was convened by special publications.

Only in 1622 shareholders were granted the right to choose persons in the management bodies, at the same time *a special body for review and control* (audit) was established in the person of two main shareholders, who annually checked the accounts of the six *Chambers* [Kozlova N., 2003].

4. Results

So, *the English and Dutch Companies of East India* through the introduction of new structures and methods of management, have become companies-classic models that led to the founding of a large number of *Joint-Stock Companies* in many countries.

Despite the fact that they had many common features with modern Joint-Stock Companies, we consider that these companies cannot be considered joint-stock companies in the fullness of the word, because they had characters deeply emphasized with simple business partnerships of those times.

Including, the economic basis for the functioning of these companies was the monopoly granted on trade with *India*, then with *China* and *Japan*.

This has also been the main consequence in the profitability of companies despite their poor management and the emergence of many confusing financial situations.

However, the legislative regulation of *Joint-Stock Companies* was carried out with great delays, even in the countries where they were founded.
Joint-Stock Companies each time were established by a special act: either patent or royal decree, parliamentary act or as the privilege of a company that was patronized by the Government.

For the first time, Joint-Stock Companies were legally recognized in France, by regulating them by the *French Commercial Code* (Code de commerce) in 1807.

Also, according to the opinions of Lawyers *Func Ia.I.* and *Mihalcenco V.A.*, colonial companies were just Joint-Stock Companies by name. In their opinion, the first Joint-Stock Companies were founded in *England* at the end of the seventeenth century, namely this first Joint-Stock Company was the *Bank of England*, founded in 1684 on the initiative of the state that was interested in obtaining considerable loans [Funk Ya., Mikhalechenko V., Khvalei V., 1999].

The entire capital of the *Bank of England*, in the amount of 1.2 million pounds sterling (currently it would constitute about 160 million pounds sterling), formed as a result of the sale of shares, where any shareholder could not hold shares in the amount exceeding 20 thousand pounds sterling, was transmitted in the form of credit to the English state with an interest rate of 8% annually.

Until 1680, in England, 49 more analog companies were established, in which shares in *the share capital* were also called by the English – *shares*. Between 1680-1719, another 40 Joint-Stock Companies were founded, between 1719-1720 another 190, which later proved to be so-called speculative companies called *soap bubbles*.

As a result, on 11 June 1720, the British parliamentary, *Bubble Act* (Full name of the legal act: *An act for better securing certain powers and privileges intended to be granted by his Majesty by two charters for assurance of ships and merchandises at sea, and for lending money upon Bottomry; and for restraining several extravagant and unwarrantable practices therein mentioned*) was adopted, which prohibited the founding of Joint Stock Companies for a sufficiently long period.

**5. Conclusion**

Summarizing the above, we can conclude that the researchers, who deal with the issue of the emergence and evolution of *Joint Stock Companies*, can be divided into two categories: one is of the opinion that the beginning of the evolution of the first forms of shareholder business can be found in Antiquity and in the Middle
Ages; another category dates the emergence of Joint Stock Companies in the modern period.

Following the overlap of these opinions, we consider that, on the one hand, we cannot completely eliminate as stages of evolution of Joint Stock Companies neither the Roman societates publicanorum, nor the German mining unions Gewerkschaften, as well as the Genoese Bank St. George. All these represent different stages in the emergence and development of Joint-Stock Companies.

6. Conclusions

However, the prototype of the shape of the association on the shares has been the colonial trading companies and the first of the Dutch Company of East India, which they put into circulation the concept of action, they have established the liability is limited to the participants, they were paid their first dividend, and has formulated a number of principles of organization and activities on the basis of which it has evolved in the form of organizational-the legal Joint-Stock Company, and in the end, it was recognised by all legal systems of the countries of the world.

References:


