

**“THE DUAL NATURES OF ACTIVISM AND OF THE STATE:
THE VIRGINIA COMPANY OF LONDON, 1606 – 1624”**

PAPER PRESENTED AT THE MILLSTEIN CENTER FOR CORPORATE
GOVERNANCE AND PERFORMANCE, YALE SCHOOL OF MANAGEMENT,
“ORIGINS OF SHAREHOLDER ACTIVISM” CONFERENCE

NOVEMBER, 2009

NEW HAVEN, CONNECTICUT

[HTTP://SOM.YALE.EDU/NEWS/NEWS/ORIGINS-SHAREHOLDER-ADVOCACY](http://som.yale.edu/news/news/origins-shareholder-advocacy)

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Publication version: March 8 2010

ABSTRACT: We trace the development of (English) Common Law institutions by examining the Virginia Company of London (VCL), founded in 1606 under royal charter. The venture, a joint stock company as of 1609, was responsible for the founding of Jamestown, the oldest continuously-inhabited English settlement in North America. Even though Virginia eventually possessed a prosperous and thriving colonial economy, the company itself met financial disaster and led to horrific human cost: why? Our explanation focuses on two themes: shareholder activism and the role of the state. Mismanagement motivated shareholder revolts in 1618-19 and again in 1623-24. The role of the state was at times helpful, at other times hurtful; the consequences of shareholder advocacy were also ambiguous. The paper concludes by examining the broader implications of the firm’s decline and ultimate failure.

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THE DUAL NATURES OF ACTIVISM AND OF THE STATE:

THE VIRGINIA COMPANY OF LONDON, 1606 – 1624

Introduction

The Virginia Company of London (VCL) was founded in 1606 under charter of James I of England. Although successful in terms of founding the longest-lasting, continuously settled English colony in North America at Jamestown, the firm was an abysmal failure for its shareholders, employees, settlers, and managers. Our key finding is that two issues—shareholder activism and the role of the state—each had ambiguous impacts on the firm’s performance, with sometimes positive and sometimes negative consequences.

INSERT FIGURE 1 ABOUT HERE

The VCL (its seal is indicated in Figure 1) was not an outgrowth of long-lasting, well-established governance practices, but was a work in progress. Its institutional structure, which in any event changed over time, had similarities to those of other companies from the early seventeenth century (in England and elsewhere). The firm’s innovative purpose was different from its predecessors, however, in that it was chartered to establish a permanent colony, and not simply to generate revenues from mercantile activity. The role of shareholder advocacy in this context was ambiguous. On the one hand, activism led to large numbers of patriotic, interested, and active shareholders that facilitated the firm’s access to the necessary financial means to found and support a colony. Advocacy also served to correct managerial practices of shirking

and diversion.¹ On the other hand, peculiar institutional forms (e.g., the rule leading to one *shareholder* one vote) led to perverse outcomes, such that entrenched *minority* shareholders under the sway of an influential CEO were able to maintain a disastrous status quo that led to unnecessary human tragedies, the firm's bankruptcy, and its eventual dissolution.

The state played a similarly ambiguous role. On the one hand, royal charters granted the firm an extensive monopoly to extract resources from a vast territory that encompassed much of the eastern seaboard of North America: most importantly, this included wholesale production of tobacco in Virginia. On the other hand, the state prevented shareholders from fully realizing the profit potential granted by their ostensible geographic monopoly. A competing royal monopoly for retail tobacco sales within England, along with price setting at the wholesale level, diverted profits from the VCL's shareholders. Regulations concerning resupply missions led to fixed, inflated prices for tools and other finished goods sent from England, and also meant that ship captains faced incentives to offload colonists but did not ensure such new arrivals were properly provisioned for the harsh colonial winters. Finally, the ambivalence of James I regarding the adverse health effects of smoking, and subsequent difficulties in portraying a positive image of the company that marketed a socially undesirable product, made it difficult to attract additional investors.

The paper proceeds as follows. *First*, it outlines the initial development of the Virginia Company of London, describing its institutional structure, governance, and early history. That section provides context for, *second*, detailed accounts of the successful effort led by Sir Edwin Sandys to remove the firm's chief executive Sir Thomas Smith during 1618-19. That initial

¹ In modern corporate finance terms, "shirking" refers to situations in which managers, and notably the CEO, spend time doing things other than finding and successfully implementing all projects that add value to shareholders. "Diversion" refers to situations in which the firm's resources are diverted away from shareholder dividends (or capital appreciation); notable examples of diversion include lavish offices, dedicated limousine drivers, etc.

episode of shareholder activism resulted in a reorientation of the firm into a potentially positive direction. Unfortunately, the opportunity provided to Sandys was squandered, and gross mismanagement discussed in the *third* section ultimately led to the dissolution of the firm in 1624. *Fourth*, we conclude by examining lessons from the VCL's failures. Specifically, we focus on the implications of the separation of control and cash-flow rights, the joint public/private management of firms and markets, and the ambiguous nature of shareholder activism; all of these are relevant to current research and practice.

I. Context of Shareholder Activism: The Origins and Development of the Company

The Virginia Company of London is best known for founding in 1607 the Jamestown colony, the oldest continuously-inhabited settlement in North America established by the English. Their geopolitical rivals, the Spanish, were accumulating substantial gold and silver specie from the New World each year.² England in the early seventeenth century had no possessions in the Americas from which to further its imperial aspirations, and the monarch faced political (parliamentary) limitations on borrowing. The king solved this resource constraint in the late 1500s and early 1600s by granting royal monopolies (exclusive rights to activities that are meant to generate revenue) to joint stock companies (that is, firms in which shares of ownership were issued to the public), including the East India Company, the Muscovy Company (which with Capt. John Smith had been associated) the Bermuda (Somers Island) Company, and the Virginia Company (of London, as well as one of Plymouth³). This form of organization allowed the king's resources for the English imperial project to be supplemented by

² A fact that allowed the English privateering adventures to flourish. Perhaps the most famous among them, Sir Francis Drake, was an early proponent of an English colony to counter those of Spain.

³ The Plymouth Company founded a colony in 1607 on the coast of modern Maine that was abandoned by 1608; it was known as Sagadahoc (Cave, 1995).

any politically allied gentry as well as by successful merchants, either individually or collectively in the form of trade associations and guilds. Wealthy investors purchased shares in the companies, which then used the funds to further the English imperial mission, as well as (potentially) to generate profits that would be distributed to shareholders in the form of a “division” of the accumulated stock of the firm—in modern terms, dividend payments. (See Table 1 for a correspondence of English Stuart-era terminology with modern equivalents.)

INSERT TABLE 1 ABOUT HERE

A. Formation and Initial Disappointments, 1606 - 1609

The Virginia Company of London (VCL) received a royal charter in 1606. The firm was created for at least two major purposes: to provide a profit for its shareholders and to further the cause of England in its imperial and religious rivalry with Spain. These divergent motivations would have deleterious consequences on the management and poor outcomes that beset the firm. Early investors included merchants that had provided equity finance to other joint-stock companies; they believed that several major sources of income could provide substantial dividends: extraction of gold, copper, and iron, commercial activity if a maritime passage to Asia could be found, and agriculture, both in the form of crops and of fish. Other investors, including some wealthy members of the gentry, purchased shares as well, but did so more out of a sense of nationalism (*vis-à-vis* Spain) and less so out of a concern for generating profits. A third group of investors of lesser means each purchased only a single share, motivated also for non-pecuniary, nationalistic reasons related to the imperial mission of the colony. Some colonists were too poor

to purchase stock in the company initially, but were granted a share (eventually convertible into land) as an incentive to join the expeditions to Virginia (Heinemann, et al, 2007; McCusker and Menard, 1985).

Initial attempts to derive income from the company's royal monopoly on the vast Virginia territory, defined eventually as the continent between the 34th parallel (Cape Fear in present-day North Carolina) north to the 41st parallel (Long Island Sound), met with failure. Shipments of "ore" sent back to England for analysis proved to contain neither gold nor silver. The American Indians, seen initially as potential agricultural laborers, did not respond favorably to the offers of employment. Cultural attitudes among the Powhatan—the paramount chiefdom that dominated the Chesapeake Bay region at the time—meant that for the most part, a women's labor such as farm work (and digging Tuckahoe root for making bread) was focused on her own community, and men were too involved in hunting, raiding, and other masculine pursuits (Roundtree, 1998).⁴ Despite exploration of the local waterways including up the James River as far as the cataracts in modern Richmond, no passage to the East had been found. This mounting evidence supported American Indian arguments that a sizable mountain range (the Alleghenies) prevented passage to the Pacific Ocean. Although some shipments of timber were sent back to England, the methods by which to achieve the desires of the shareholders for substantial dividend payments were becoming increasingly unclear.

INSERT FIGURE 2 ABOUT HERE

⁴ Roundtree argues that early English explorers identified Powhatan women as performing "support jobs for their huntin' and fishin' husbands..." and explores the complexities of women's labor in 1607 Virginia (1998: 3). She describes Powhatan men as enjoying "temporary exertions characteristic of warfare and the chase, tempered by periods of resting and politicking." (Roundtree, 1998: 4)

During this early period, settler mortality was atrocious, especially during the “starving time” when only 60 colonists survived the winter of 1609-10 (over 400 had disembarked by then). Figure 2 presents information based on accounts from John Smith, who reported partial data⁵ on settlers and their backgrounds. We have grouped these into four major categories: gentlemen, laborers, craftsmen, and others.⁶ Clearly, the over-representation of “gentlemen” presented a very top-heavy organization, and the consequent lack of food is not surprising, especially when coupled with mismanagement of labor resources such as deploying men in unsuccessful activities including digging for gold along the banks of the James River (Heinemann, et al, 2007).

B. The Second Charter and the Tobacco Export Industry, 1609 - 1618

The ambiguous role of the state is underscored by the fact that the VCL’s dual private and public characters were repeatedly reconsidered and changed. Even quite early in the firm’s history, a reorganization of its governance was undertaken. It had become clear by 1609 that less heavy intervention by the king’s council would allow more flexibility in the management of the firm. In February of that year, the company had completed negotiations for the second charter (the document from the king that gave permission for the firm to exist and formalized its geographic monopoly), and began taking subscriptions to a new joint-stock fund.⁷

⁵ Because it is likely that the omitted settlers were likely to be less important, the numbers for laborers are probably under-represented. Nevertheless, a large group of non-laboring gentlemen would be a burden on workers that had to clear forest, establish the settlement, and grow food, as well as explore the area.

⁶ Smith identifies “gentlemen” and “laborers” as such. Our category of “craftsmen” includes: Carpenters, blacksmith, sailor, barber, bricklayers, mason, tailor, drum, surgeon, tradesmen, eight Dutch and Poles, jewellers, refiners, perfumer, gunner, tailors, apothecaries, cooper, tobacco-pipe maker. The “other” category includes: Councillor or were appointed to be of the council (management), preacher, boyes, Mistress Forrest and her maid. Source: Captain John Smith accounts, http://www.preservationvirginia.org/rediscovery/page.php?page_id=30

⁷ Although we know details of the share price of the second charter, there was some participation by investors even as early as 1606, “It is impossible to speak with exactness regarding the financial arrangements of the first years. A

INSERT FIGURE 3 ABOUT HERE

The amended charter gave the selection of the Board of Directors (Council) to “the voice of the greater part of the said Company of Adventurers, in their Assembly for that purpose.”⁸ The king retained veto authority, because he could deny a nominated council member the opportunity to be given a necessary oath; failure to take the oath would disqualify an applicant from membership. The privy council, a group of important policy-makers reporting to the king, facilitated royal regulation and oversight. The new organization as a joint stock company in the charter of 1609 attracted a wide variety of investors (“adventurers”). Each share cost 12£ 10s. (or 12.5 pounds), an amount that allowed a large number of wealthy English investors to participate in the initial public offering (known at the time as a “subscription”). At this point in time, shareholder activism clearly played a positive role—an extensive pool of shareholders contributed funds that were needed to rejuvenate the failing colony.

In the wake of this corporate reorganization, the colonists were now able to act flexibly and on their own initiative, avoiding the lengthy process of getting Royal Council approval for each proposed course of action. Yet, in the years following, renewed hopes waned in turn as each new source of potential profits yielded disappointing results. In the hopes of increasing the colony’s revenues, skilled workers from Europe (Italy and Poland) were sent to Jamestown, but achieved only limited successes in growing grapes for wine and creating iron tools (Kelso and

provision in the first instructions directing the settlers to live, work, and trade together in a common stock through a period of five years suggests the possibility of a five-year terminable stock, i.e., a fund that would be invested and reinvested through a term of five years before it was divided, together with earnings thereon. But other evidence indicates that there may have been a separate stock for each of Newport’s voyages, as was the case with each of the early voyages of the East India Company to the Orient.” (Craven, 1957: 16-7).

⁸ Second charter of the Virginia Company of London, collected by Force, *Orders and Constitutions*.

Straub, 2004). Silk worms—a special interest of James I—died in transit. How would the colony generate a profit for its investors?

Hindsight indicates that 1611 was when the fundamental value proposition of the Virginia colony emerged. In that year, John Rolfe successfully bred a strain of tobacco palatable to European tastes (although still inferior to the Spanish crop from Cuba) that was raised in Virginia; it was first exported in 1612 (Heinemann, *et al*, 2007). From this meager beginning, annual exports of tobacco from Virginia to England reached almost 50,000 pounds by 1618 (see Figure 4). The potential ability of tobacco to finally yield a good return for shareholders, however, did not substantially improve the morale of the investors located in London, and their pessimism was in the end vindicated, for a number of reasons.

INSERT FIGURE 4 ABOUT HERE

Given the discovery of a profitable export crop, why didn't the fate of the colony and the company turn around? Here we see again the ambiguous role of the state in the VCL's fortunes. This was a complex issue, with sensitive political overtones for the owners of the firm, because although King James did not like tobacco (in part due to its obvious deleterious consequences on the health of his subjects), his inclination to make its consumption illegal would have dashed his imperial ambitions for an independently-funded colony. The Virginia enterprise needed a source of revenues to avoid bankruptcy, and the royal monopoly on wholesale production seemed the only reasonable possibility for generating earnings. The king, however, made no secret that he opposed the practice of smoking, as did many of the leading moral authorities in England—it was seen as dirty and unhealthy even as early as the late 1500s when Sir Francis Drake was a

famous proponent of the leaf. To make matters worse, tobacco consumption took place primarily in “bawdy” and “tippling” houses; these were not venues with which investors wanted to be associated. Public disapproval, encouraged by the king’s own personal views, also hurt the firm’s ability to obtain legislation that would have helped its bottom line. For example, a separate royal monopoly to *retail* tobacco had been sold to the highest bidder and not granted to the VCL. The disreputability of tobacco, in turn, was countered by the king’s desire to see the imperial project succeed; he was dissuaded from killing the goose that laid the leaden eggs.⁹ In the end, it was the geopolitical importance of the English colonial mission that allowed the firm to avoid an early dissolution (McCusker and Menard, 1985), because the king was not willing to abandon Jamestown and its expanding out-settlements.

Tobacco also had a counterproductive impact on the survival of colonists. Many landowners and indentured servants in Virginia devoted time and attention to raising this difficult cash crop, but at the expense of raising food for their own consumption. To stop repeated starvations¹⁰ that resulted, as early as 1616, Governor Dale enacted a policy that required all colonists to each plant at least two acres of “corn” (edible crops), so that subsequent hunger became less likely. This edict was re-issued in the reforms of 1618 carried by Capt. George Yeardley. If settlers had complied with the first order, it would not have been repeated—clearly, too many colonists were gambling on the future benefits of tobacco revenues, and not ensuring their own survival through the planting of edible crops.

⁹ “the house of Commons in 1621 came very near passing a law prohibiting the importation of all tobacco into England, and were restrained from doing so only by the plea of those interested in Virginia and Bermuda that such an act would ruin the plantation” (Craven, 1964 [1932]: 93).

¹⁰ One explanation for this seemingly irrational policy relates to English-Indian relations. If the settlers believed that they could simply extort food from Indians, there was no need to grow it themselves. While Pocahontas and her paramount chief father, Powhatan, remained alive, a tenuous peace remained, forestalling any major Indian attack. After their deaths in 1617 and 1618, respectively, tensions mounted, and it became more difficult for the English to obtain necessary foodstuffs, especially for the large groups of autumn-arriving colonists.

Meanwhile, back in England, the initial “division” to shareholders took place in 1616. Unfortunately for the investors, the dividend was not in the expected form of cash payments distributed to shareholders but rather consisted of grants of land in the distant colony (Craven 1964 [1932]: 43). As illustrated elsewhere in this volume, shareholders of the era were compensated with “in kind” payments such as spices and commodities, but a swath of swampy territory located on the other side of the Atlantic would not satisfy most shareholders, especially those concerned with monetary gain.

II. The Sandys “patriot faction” removes Sir Thomas Smith, 1618-19

There were several reasons for the shareholder revolt that eventually led to the ouster of Sir Thomas Smith. These include the land dividend, the firm’s poor financial performance up to 1618, investor concern that reliance upon the disreputable crop of tobacco would drown the high-minded patriotic mission of the colony, and suspicions about insider dealing by members of the merchant faction.

Shareholder activism was a natural reaction to perceived shirking and diversion on the part of the firm’s management. First, a carve-out firm known as the Magazine conveyed resupply to the colony and delivered its surplus; that entity seemed to be charging inordinate fees for its products and collecting substantial revenues for transport of tobacco back to Europe.¹¹ In addition, the colony’s Governor located in Virginia, Captain Samuel Argall, was reported to be spending inordinate time and attention on his own plantation as opposed to the VCL’s common

¹¹ A later commentator found the Magazine’s relationship with the Company as “so fruitful of abuses, that it was abolished in 1620” (Ripley, 1970 [1893]: 12).

land (“publique”).¹² This was part of a larger movement of establishing private plantations that drained scarce labor resources from the company, especially now that many of the initial seven year contracts of indentured servitude were expiring.¹³ To exacerbate matters further, the firm’s chief executive, Sir Thomas Smith, spent considerable time managing the other companies he ran, the Somers Island Company (with jurisdiction over Bermuda) as well as the East India Company.

Smith, an experienced merchant with an eye to the profits of the company, was in the process of pushing through some substantial reforms in 1618. First, Argall was removed; the shareholders chose as his replacement Captain George Yeardley, who had served ably as deputy governor between the Dale and Argall administrations. He was commissioned on November 18, 1618, and, carrying a set of vital instructions, he set sail in January, 1619 to take over day-to-day management of the colony. Second, Smith attempted to placate unhappy shareholders by instituting a number of governance reforms. Court meetings of shareholders in 1618 were devoted to issues such as land tenure, abolition of martial law, and the establishment of the Virginia Assembly—the first democratic body in the English New World. These three issues were resolved as follows. Three classes of claimants to land tenure were addressed in the reforms: (a) those of adventurers (shareholders) who deserved “dividend” payments in the form of land ownership, (b) those of the “ancient planters” who somehow survived the very calamitous early years and were thought to deserve some extra consideration for the tribulations they had faced, and (c) recent settlers, who were divided into new and old categories, based on

¹² Argall, received possibly the first land grant to a private individual from the Company “conveying...large contiguous areas of land with the privilege of farming the grant as a private plantation” (Craven, 1964 [1932]: 57).

¹³ “[Recipients of private land grants]had sought to avoid the cost of transporting their colonists from England by persuading settlers already in Virginia to take up divisions in these new plantations, which of course was a practice opposed to every interest of the company. Captain Argall seems to have been held the chief offender, and the governor was especially warned that the patent secured by him in 1616 was in no way to be respected since it had been secured by slight and cunning.” Craven, 1964 [1932]: 65.

whether their arrival pre- or post-dated the departure of Governor Dale in 1616. Additional provisions were codified for future settlers, including tradesmen.

Despite these reforms, the fortunes of the colony—and the chances for positive returns on investment to shareholders—were still in doubt, and Smith’s actions were portrayed by his enemies as too little, too late. The mounting frustrations of investors and the public were successfully channeled and directed by Sir Edwin Sandys, a noted Member of Parliament (in the House of Commons). He has been characterized as an idealist who placed primary emphasis on the imperial possibilities of a successful colony in North America (Rabb, 1998). To convince the vast number of small shareholders to allow him to run the company, Sandys stressed his intention to rejuvenate the settlement by vastly expanding the number of colonists located in Virginia, by reducing the reliance on tobacco, and by renewed efforts to develop other activities that would generate shareholder returns (including wine, ironworking, and silk production, a favorite of James I).

Shareholder advocacy at this point in time has a positive impact on the VCL; it led to a change in leadership that provided an opportunity for improved profitability, and served to limit shirking and diversion that was taking place. Sandys was able to assemble a large group of allies, the “patriot party” or “patriot faction,” which clearly threatened to replace the current leader, Sir Thomas Smith. The latter’s supporters, primarily wealthy merchants, became known as the “court” faction. An observant leader who well understood the threat to his reputation that the shareholder revolt represented, Smith decided to save face and declined to run for re-election as Treasurer, allowing Sir Edwin Sandys to take control of the firm in early January, 1619. (Craven, 1964 [1932]: 68) Back in Virginia, Yeardley arrived with new orders. Argall’s private plantation—a mile north of the Jamestown fort—was re-assumed by the company.

This episode of shareholder activism rested on both fact and perception: it was demonstrably true that the firm was not performing well in terms of return on investment, but it was less clear that anyone else could have done better. Smith was an experienced CEO (Treasurer) who also held key posts in the (English) East India Company and the Somers Island Company. Although he was clearly qualified to run the firm, his incentives were not perfectly aligned with those of other shareholders. Smith's enemies called attention to various legitimate problems: spending his time managing the other companies he ran, allowing his son-in-law to manage the highly profitable carve-out firm called Magazine, and allowing Argall a personal plantation in Virginia. Doubt about the fundamental value proposition of the firm was combined with accusations of malfeasance on the part of Smith, and Sandys remained in *de facto* control of the firm from 1619 until its dissolution.

III. Merchant Blockholders Arrange the Company's Dissolution, 1623-4

Unfortunately, the skills of Sandys as a persuasive politician were not matched by his managerial abilities. Although VCL's investors as well as the colonists in Virginia welcomed the renewed energy and enthusiasm accompanying the change in leadership, the execution of Sandys's grand ideas left much to be desired. As promised, he repeatedly shipped large numbers of settlers from overcrowded England to the new colony—but he allowed this to happen during the autumn. Without time to grow crops for themselves, and taxing the limited stores of the colony, many of them faced starvation. This mis-managed colonizing schedule occurred year after year despite repeated warnings and protests from Virginia. Mortality rates were horrific.

In addition, poor provision was made for defense against the ever-present threat of Native American resistance—colonists began to build settlements further and further from the

protection of the fort at Jamestown in a practice condemned as “straggling”. This risky settlement policy was exploited by the well-organized Powhatan Indians; 347 colonists were killed in a surprise attack of 1622. The resulting conflict lasted eight years, and decimated the Powhatan paramount chiefdom.¹⁴

To mask this “overhasty” colonization and malfeasance, and to protect his own reputation in parliament, Sandys concealed from the shareholders the true state of the Virginia colony. How was Sandys able to block action for several years, despite repeated rumors of disastrous starvation in Virginia as early as 1618? Why didn’t responsible leaders of the VCL end Sandys’s continued and irresponsible off-loading of ill-prepared colonists?

One answer lies in the governance practices of the company. In fact, each *shareholder* (“adventurer”) held one vote, placing minor investors on equal terms with large block-holders. This allowed the Sandys faction to control the shareholder meetings (“courts”), out-voting the stockholders who held multiple shares, were generally more experienced merchants, but which each had only one vote. Sandys shrewdly prevented his enemies from packing the shareholder meetings in return by changing the rules and only allowing his allies to participate, effectively excluding Smith and the other merchants who owned larger blocks of shares. A series of contentious shareholder meetings led external observers to discount charges of mismanagement

¹⁴ “Attacking from Jamestown to the fall line on both sides of the river, the Indians practically wiped out the new settlements of Henricus, Bermuda Hundred, Martin’s Hundred, and Berkeley Hundred, where the first Thanksgiving service had been held in 1619; after the massacre, settlers did not return to these sites. Jamestown was saved by a warning from two Indian converts to Christianity. At this point [Chief] Opechancanough made the tactical error of ending his assaults, assuming the English would, in Indian fashion, withdraw from battle and return to England. He was sadly mistaken. After the Great Assault the English retaliated with a policy of ‘perpetual warre without peace or truce’ against the Powhatans....Before the attack the English had felt a responsibility to engage in the civilizing mission of Christian conversion and English civility. After the attack, however, the English believed the Indians had forfeited that possibility.” Heinemann, et al, 2007: 31.

as simple personality conflicts among the key factions.¹⁵ This atmosphere of rancor obfuscated the true performance of the firm, prolonging the ability of Sandys to continue shipping colonists during the autumn.

In addition, it was difficult for investors and the public at large to obtain objective information on the true status of the colony. A series of effective propaganda campaigns led by Sandys served to conceal the consequences of his gross mismanagement; he was a pioneer in using the relatively new technology of pamphlets directed to the public.¹⁶ There is also some evidence that he altered written accounts from Virginia. In 1623, as part of the activities that would eventually result in the dissolution of the company, a royal investigator named Nathaniel Rich would later complain that some of the record books of the meeting minutes were “blurred” and illegible; this “suggests ... that official records had been subject to no little editing” (Craven, 1964 [1932]: 7).

When eventually the consequences of his mismanagement became known due to the circulation of a polemical tract¹⁷ by Nathaniel Butler, the block-holding “court” faction of merchants led by Smith precipitated the second major episode of shareholder activism in the VCL. The charges were clear: Sandys was not able to turn the firm into a profitable company, was unable to face the fact that his mismanagement had led to the needless deaths of hundreds of

¹⁵ Craven (1964 [1932]: 105) characterizes the situation as follows, “There are numerous instances in which the opposition to Sandys was motivated not so much by disagreement with his policies and sincere alarm at the state of the colony as by the simple fact that Smith and Warwick disliked Sandys and were anxious to satisfy some longstanding grudge.”

¹⁶ “In 1623, Sandys’s enemies charged him with having led hundreds of the king’s subjects to their death by the spreading of false rumors through the publication of letters, books, and ‘cozening ballads’” (Craven, 1964 [1932]: 96).

¹⁷ “Unmasked Face of our Colony in Virginia as it was in the Winter of the year 1622.” Butler, governor of Bermuda, had only remained in that office by fighting off Sandys’s attempts to dislodge him. At the conclusion of his three-year term, he took a side trip to Virginia in the winter of 1622-3. There, he witnessed the colony during its “most severe trial, and returned to England full of information and with his hatred of Sandys augmented by the affronts of colonial leaders who regarded him as something of a busybody and spy.” (Craven, 1964 [1932]: 254).

colonists, and, finally, was unwilling to report the true nature of the catastrophe to the public, to shareholders, and to the king. To determine the truth of numerous charges and counter-charges, a royal investigation was initiated in 1623, and after the realities of Sandys's performance were independently verified, the firm's charter was revoked in 1624. In these final days, the role of the state and of shareholder activism exhibited by Smith's court faction take on a more positive role—at least the mismanaged colonization schedule would no longer be followed, saving countless future colonists. But, the dissolution prevented any possibility that shareholders would receive a positive return on their investments in the VCL. Smith and the greater merchants, frustrated with being blocked from effective control of the firm, decided to bring its existence to an end; the collateral damage to Sandys's reputation was an additional incentive for their actions.

IV. Conclusion: Aftermath and Legacy of the VCL

The Virginia Company of London (VCL) provides an interesting case study in the evolution of the English system of Common Law. Although any detailed history of the company would be replete with complex subtleties, our narrowly-focused study resulted in the key finding that two important aspects of the firm—its shareholders' activism and its interaction with the state—each had both positive and negative impacts on the firm's chances for success.

Shareholder advocacy was essential to the firm's initial attempts to obtain capital—excitement and interest in the colonial mission helped the company raise funds for its initial voyages. Numerous investors, both private individuals and collective bodies such as guilds, became subscribers to the joint stock company. Early disappointments—including the disastrous situation in Virginia, the dividend which took the form of 50 acres of land, as well as accusations of mismanagement by Sir Thomas Smith—provided impetus for the company's reform during

the 1618-19 timeframe. Unfortunately, once he obtained control of the firm, the new executive Sir Edwin Sandys was able to manipulate shareholder activism to his own ends, changing the rules such that constraints on new shareholder voting led to the perverse situation, unprecedented to our knowledge, of entrenched minority shareholders. Ultimately, dissatisfaction by merchants and other large block-holders led to the dissolution of the firm. This had the beneficial result of preventing the annual starvation of autumn-arriving colonists, but also ended any potential for the firm's shareholders to ever generate a positive return on their investment.

The role of the state was helpful in a number of ways—the royal charter provided a substantial and potentially valuable monopoly to the firm's owners. Yet the state interfered in other ways with the VCL's ability to generate profits—the Magazine benefitted from fixed prices on the resupply missions. The rules provided incentives for ship captains to unload colonists, whether properly provisioned or not. Although the VCL had the monopoly on tobacco wholesale production and export, a separate monopoly sold by the king allowed others to benefit from its retail sales in England. Finally, the king's decision to dissolve the company in 1624 had an ambiguous effect—it prevented annual starvations associated with landing ill-prepared colonists, but it denied any future possibilities for the firm to become profitable.

The firm was one of the least successful joint-stock companies of its era. Unlike its sister-firm the Bermuda Company (also known as the Somers Island Company) or the English East India Company, the VCL was a dismal failure as a profit-making entity. It faced problems unique to its colonial mission: unlike the island of Bermuda, it had no protective ocean to cushion it from well-organized aggression from the Powhatan Indians; the events of 1622 in which many Europeans all along the James River died was evidence of that. One important

lesson from the Sandys administration's over-hasty colonization was that it provided the English with a lesson on the proper provisioning of their settlers.

The separation of control and cash-flow rights that resulted from the institution of one-*shareholder-one-vote* is peculiar to contemporary observers. Notions of democracy and shared power were in their very early stages, however, and the learning curve was steep. The modern practice whereby each *share* counts for one vote is *de rigueur*, but it is important to note that there are still dual-class shareholding structures in a number of privately held and even publicly traded firms, some of them quite successful (famously, Google). The story of the VCL calls attention to this fact, and to the consequences of the relationships among cash flow rights and control rights in modern firms.

The Virginia Company of London was not successful as a firm. Nevertheless, it indirectly gave rise to the form of socio-economic organization that eventually came to dominate the Tidewater area of Virginia (and neighboring regions) for centuries. In fact, its failure as a private firm is not unrelated to the success of the individual plantations—diversion resulted in private gain for some settlers, “the development of the private estates had much weakened the Company's resources” (Ripley, 1970 [1893]: 12). The eventual success of the Virginia colonial economy was a testament not to the management of the VCL, but rather to the tastes of English tobacco consumers. In addition, the existence of the VCL meant that a large number of young indentured servants who had little stake in the mother country were available to colonial landowners, providing supply to a nascent labor market devoted in large part to tobacco production. At the time of the demise of the company in 1624, indentured servitude was starting

to be replaced by the lifelong and pernicious “peculiar institution” of slavery that was to become the dominant mode of tobacco production until the Civil War.¹⁸

The implications for the modern world are striking. Today’s headlines are replete with political “interference” in joint-stock firms: one can cite as clear examples the backlash against bonuses for AIG executives or the politically-mandated resignation of the CEO of General Motors. If modern firms are run based on one-person-one-vote leadership through the political system of representation, will subsequent failures be as spectacular as they were in the seventeenth century? Or, even more cynically, should we view the VCL in broader terms, as a success in terms of the colonial project of England in the Tudor era, where politicians manipulated shareholders and diverted their profits for the benefit of the “greater good” associated with the English imperial mission?

¹⁸ The institution of slavery developed over a long time span, and the rights of blacks (free, semi-free, and slave) varied across time and space as well. At the time of the VCL’s dissolution in 1624, there were only a handful of African Americans living in Virginia (Heinemann, et al, 2007).

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Internet Resources (for figures and graphics)

http://www.preservationvirginia.org/rediscovery/page.php?page_id=22

http://www.preservationvirginia.org/rediscovery/page.php?page_id=30

http://www.nps.gov/history/history/online_books/source/is2/is2a.htm

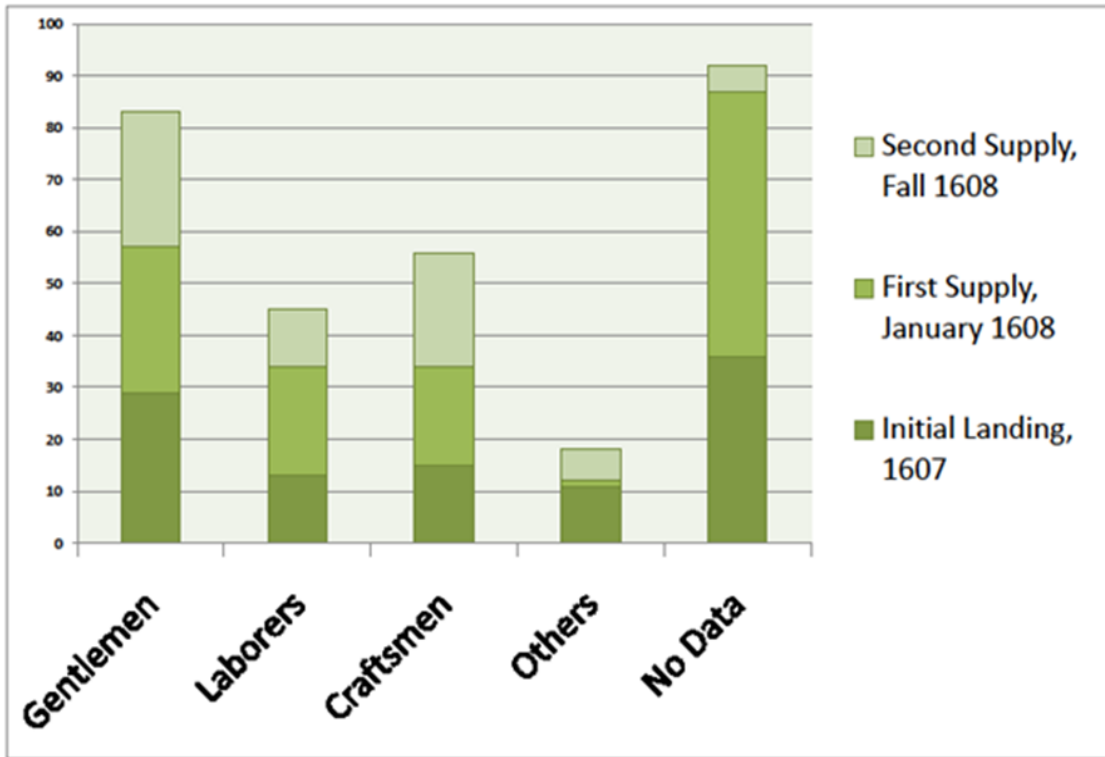
Table 1: Correspondence of Modern and Stuart-era English Terms and Concepts

Stuart-era Term	Modern Equivalent	Notes/Implications for VCL
Privy Council	Regulatory (royal) oversight committee	
Adventurers	Shareholders	Term also referred to early colonists who landed at Jamestown in 1607 as well as some subsequent colonists, many of whom were granted land on account of their service, not due to purchase of shares
Garbling	Inspection of imports for quality control	Especially important regarding tobacco imports
Hundred or Plantation or Grant	Private settlement, not officially part of VCL	
Tonnage and Poundage; Impost	Import tariffs	Fees went to royal treasury; important for determining fixed price of tobacco imports
Stragglings	Dispersed placement of colonial settlements	An example of mismanagement of VCL—stragglings made it more difficult to mount a consolidated defense against Native American aggression, as indicated in the Massacre of 1622
Sole Importation Contract	Retailing monopoly	Another aspect of the tobacco trade in Stuart-era England; royal charter granted to provide a retailing monopoly
Somers Island Company	Bermuda Company	A sister company with many common shareholders with the VCL; shareholder meetings would frequently switch from one firm to the other; CEO was Sir Thomas Smith even after his tenure at the VCL ended
Court Assembly and Quarter Court	Shareholder meetings	See Figure 1 for organizational scheme of the VCL and the role of the Court Assembly (which required a quorum of 5+ councilors, the treasurer and his deputy, as well as the 2 principal officers of the company in addition to 15 members of the “Generality”, meaning shareholders) and Quarter Courts (selection of councilors for both company and colony; managed distribution of land; enacted laws for the colony)
Publique	Common land held by VCL	Depreciation and deterioration of the common land was one of the original factors leading to the first wave of shareholder discontent in the 1614-1618 period
Treasurer	CEO	Also, the director of the VCL. Note that Sandys, although officially removed as treasurer, more or less directed the company from 1618 until its dissolution in 1624
Division	Payment of dividends	Originally, cash dividends were foreseen as a result of profitable activity of the VCL; eventually, the only items of value that was distributed to shareholders were grants of land in Virginia, which led in turn to the large number of private plantations in the colony
Subscription	IPO or SEO	In addition to selling shares, the VCL raised funds by offering various lotteries until these were suspended by royal edict
Magazine	Carve out for the resupply of and transport of exports from the colony	The prices which the Magazine was permitted to charge for exports of tobacco from the colony, and the exemption from royal duties and tariffs became important aspects of the initial shareholder activism of the 1618 period



Figure 1: Seal of the London Company of Virginia

Source: http://www.preservationvirginia.org/rediscovery/page.php?page_id=22



Source: author calculations based on
http://www.preservationvirginia.org/rediscovery/page.php?page_id=30

Figure 2: Settler Categories to Jamestown, Based on Data from John Smith

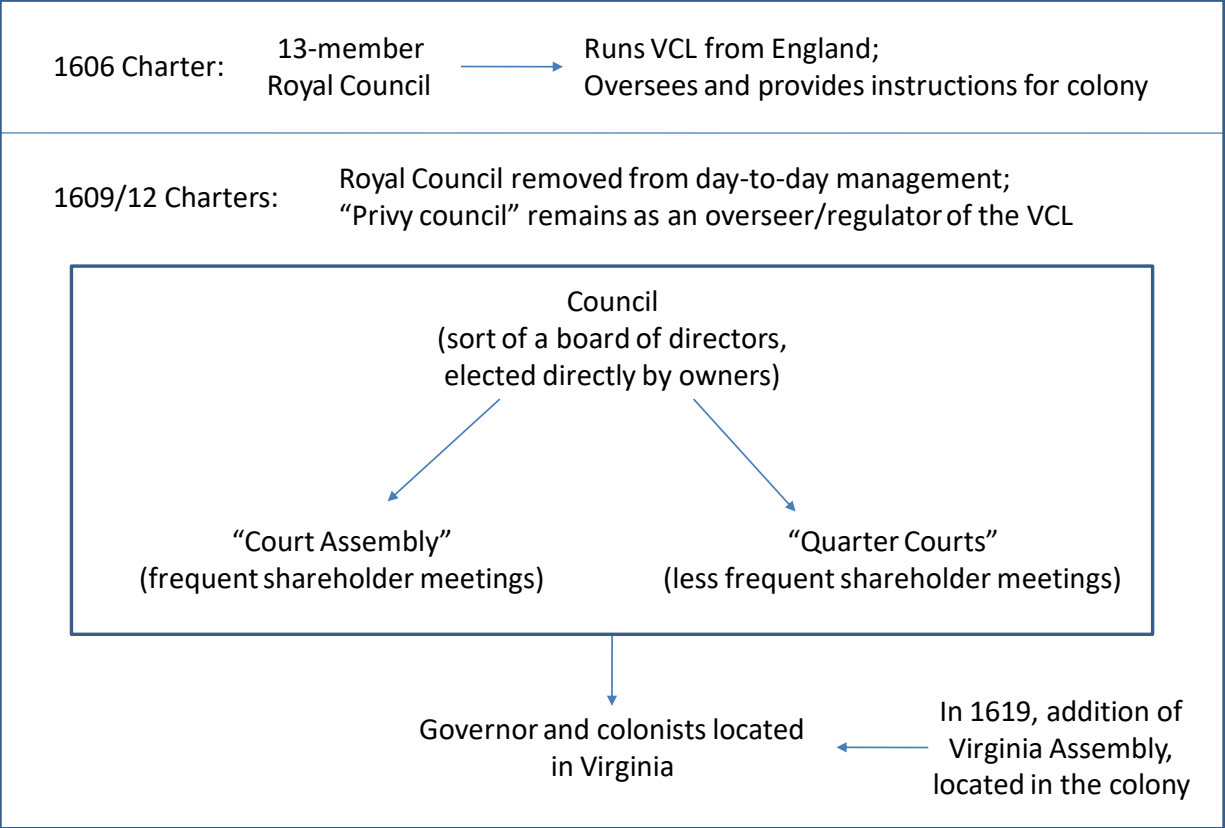


Figure 3: Reorganization of the Virginia Company, 1609

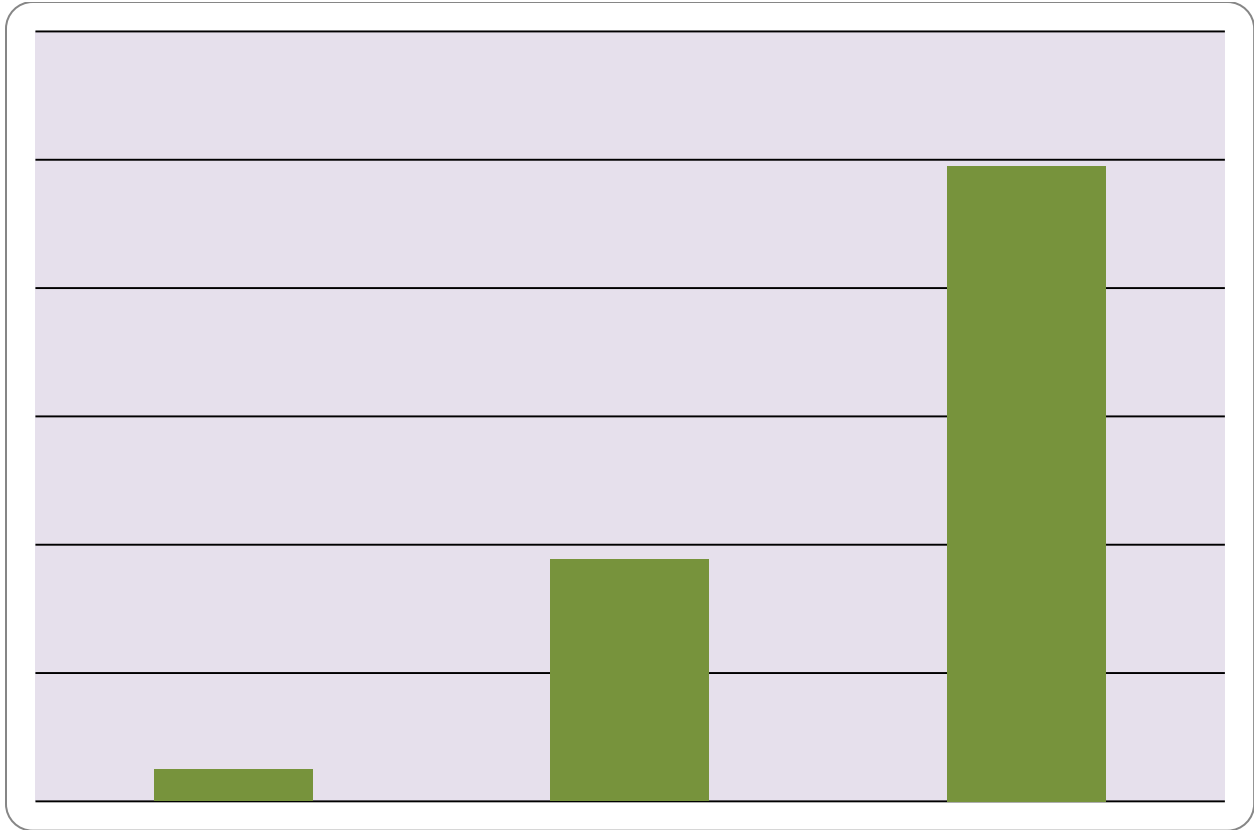


Figure 4: Tobacco Exports from Virginia (000 pounds per year)

Note: trace amounts were exported in 1614 and 1615

Source: Author calculations based on papers of Lord Sackville, surveyor-general of customs from 1613, cited in Craven, 1964 [1932], p. 39