Treaty of Allahabad - Shah Alam II granting the right of Diwani to Robert Clive. Benjamin West (1738–1820)/British Library

The English East India Company

Analysing the Company's Strategic Choices through the Lens of Modern Strategy Theory

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LIST OF CONTENTS

INTRODUCTION

15th century Europe's tryst with the markets of the Indian subcontinent happened when the Portuguese explorer Vasco Da Gama sailed around the Cape of Good Hope to reach Calicut (Kozhikode) in 1498 A.D. An event described by some as "equivalent to putting a man on the moon", his voyage marked the discovery of a new sea route to India which gave the Europeans direct access to the much-sought after spices of the Far East.

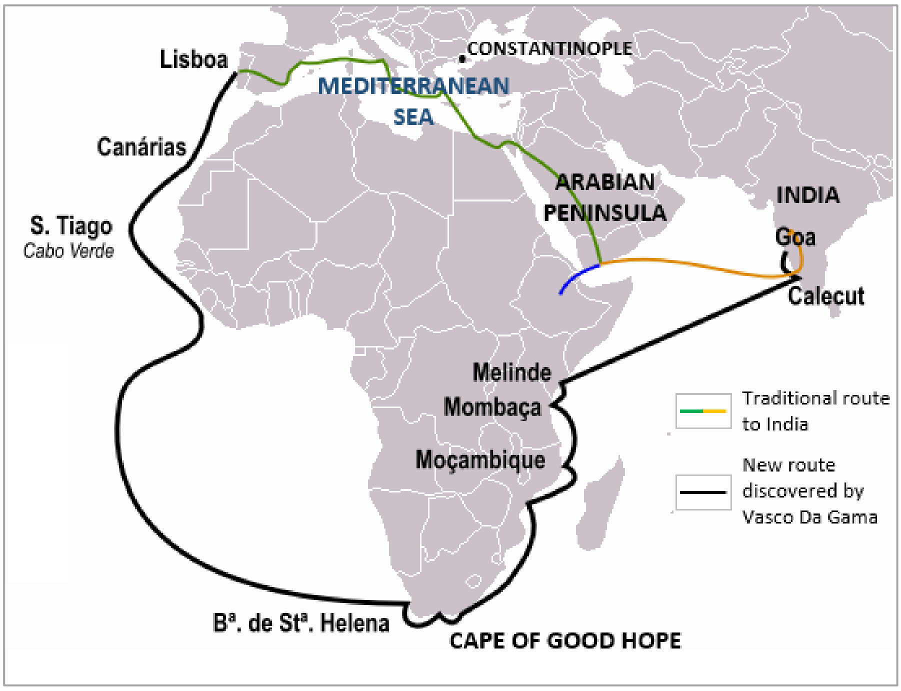


Illustration created by adding additional labels to an image available at theageofdiscovery.wikispaces.com

Figure 1. Discovery of new sea route to India by Vasco Da Gama (1453 A.D.)

Vasco Da Gama's voyage was prompted by the closing of the traditional trade route between India and Europe following the capture of Constantinople (modern day Instanbul, Turkey) by the Ottoman Empire in 1453 A.D. As shown in Figure 1, the capture of Constantinople gave the Ottomans control over the Mediterranean Sea, which was a major part of the traditional trading route between India and Europe. So strong was the demand for spices of the East (particularly black pepper as a preservative for meat) in Europe that the Europeans set out to discover new routes to India. It was then that Spanish explorer Christopher Columbus sailed West across the Atlantic in search for the Indies (and ended up discovering the Americas), while Portuguese explorer Vasco Da Gama decided to travel round the Cape of Good Hope to reach Calicut.

The arrival of Vasco Da Gama at Calicut marked the beginning of a new era of trade between India and Europe, and paved the way for other European powers to follow suit. The Portuguese dominated the European import of spices between India and Europe for the next many decades, accounting for as much as 75% of imports of spices till the 1580s.[1] However, the Portuguese domination over the spice trade declined towards the end of the 16th Century owing to issues beyond the scope of this report, and paved the way for the Dutch and the English to establish trade links with India.

[1] John Keay, *The Honourable Company*, London: HarperCollins, 1993, p. 219.

QUESTION 1

What strategic choices were made by the Dutch VOC vis-à-vis the choices made by the English East India Company with respect to trade with India?

The Portuguese monopoly of spice trade in Asia was broken by the advent of rival companies from north European nations, the most prominent of which were the English East India Company (EIC) and the Dutch *Verenigde Oostindische Compagnie* (VOC). Both the Dutch VOC and the English EIC were founded at the beginning of the 17th century, with only two years separating their formation. Initially, the Dutch came to dominate the trade with Asia - the initial capitalization of the Dutch Company was 6.5 million guilders, ten times the amount of the English Company's capitalization.[2] However, despite being a roaring success when it started operations, the Dutch Company was dissolved more than a half century before its English counterpart and had grown stagnant long before that time.[3] In this section, we explore the strategic choices made by the two firms over this period that led to the establishment of English supremacy over the trade with India.

Similar beginnings

The English East India Company was a London-based Company that was established in 1600 for carrying out pepper trade with the East. A royal charter from Queen Elizabeth I granted the company an exclusive monopoly on all trade east of the Cape of Good Hope for 15 years, as well as customs concessions and permission to export spices. The charter listed the aims of the Company as the "pursuit of mercantile profit" and the "advancement of trade".

The Dutch United East India Company, also known as the VOC (*Vereenigde Oostindische Compagnie*) was set up by the States General (the bicameral legislature of the Dutch) in 1602. The Company was granted exclusive monopoly rights to engage in trade with Asia.

The table below compares the two companies on various parameters such as the items they traded, their holding patterns, major bases across Asia etc.

Parameter	Dutch VOC	English East India Company
Year of formation	1602 A.D.	1600 A.D.
Type	Publicly traded joint stock company	Publicly traded joint stock company
Mode of establishment	Established by consolidating fragmented Dutch traders into a single firm through a Royal Charter	Established through a Royal Charter issued by Queen Elizabeth I
Monopoly rights	"21-year monopoly on all trade with Asia" (renewed subsequently)	"15-year monopoly on all trade beyond the Cape of Good Hope" (renewed subsequently)
Global HQ	Amsterdam, Netherlands	London, UK
First base in India	1602 A.D. Pulicat (Coromandel Coast)	1608 A.D. Surat (Gujarat)
Defunct	1799 A.D.	1874 A.D.

[2] De Vries (1976). Pg. 130

[3] *Between Monopoly and Free Trade – The English East India Company (1600-1757).* Emily Erikson. Pg. 4.

The table above illustrates that the British and the Dutch started on almost equal footing in India – they were established around the same time, had similar monopoly privileges granted to them by their respective governments, were based out of European cities with similar economies at that time, and also established trade links with India around the same time. The question that, therefore, begs consideration is what led to the Dutch VOC being dissolved in 1799 A.D. – 75 years before the English EIC became defunct? As we will see in the next section, this can be attributed to differences in the strategic choices of the two companies with respect to trade with India.

Analysing differences in strategy

The table below compares the Dutch VOC and the English EIC on their trading strategies with Asia:

Parameter	Dutch East India Company	English East India Company
Major Bases in Asia	Indonesia (Batavia, Bantam) India (Cochin, Pulicat), Sri Lanka (Colombo, Galle)	India (Calcutta, Madras and Bombay)
Items of Trade	Primarily spices such as black pepper	Spices, raw silk, cotton, indigo, saltpetre, coffee, tea
Strategic orientation	Single-minded commercial aggression against local rulers. *"We cannot carry on trade without war, nor war without trade"* - Jan Pieterszoon Coen, founder of Batavia as VOC's capital in a letter to his bosses (1619)	Diplomatic and peaceful co-existence with local rulers. *"If you will profit, seek it at sea and in quiet trade"* - Sir Thomas Rue, English Ambassador to India in a letter to the English EIC (1680)
Regulations regarding private trade	Company employees were not allowed to engage in private trade	Company employees were allowed to engage in private trade

We now explore three particular facets of their strategies that could possible explain the eventual decline of the Dutch VOC and the rise of the English EIC.

1. Product-focus v/s Geography-focus

The Dutch VOC's strategy of trading with Asia was driven by a desire to dominate the trade of spices. This can be seen from the fact that black pepper accounted for nearly 60 percent of the Dutch VOC's trade by value (1615- 25)[4]. While, initially, what attracted the British to India too was spices, after coming to the subcontinent they sensed the demand for cheap textile in Britain and began trading with India in other items such as silk, cotton, indigo etc.

[4] *Mercantilism as Strategic Trade Policy.* Douglas A. Irwin (1991). Pg. 1300.

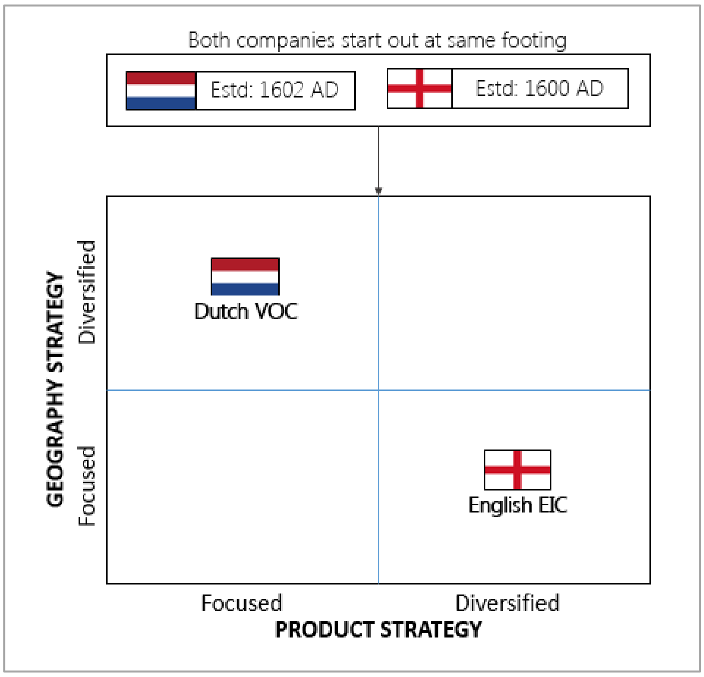
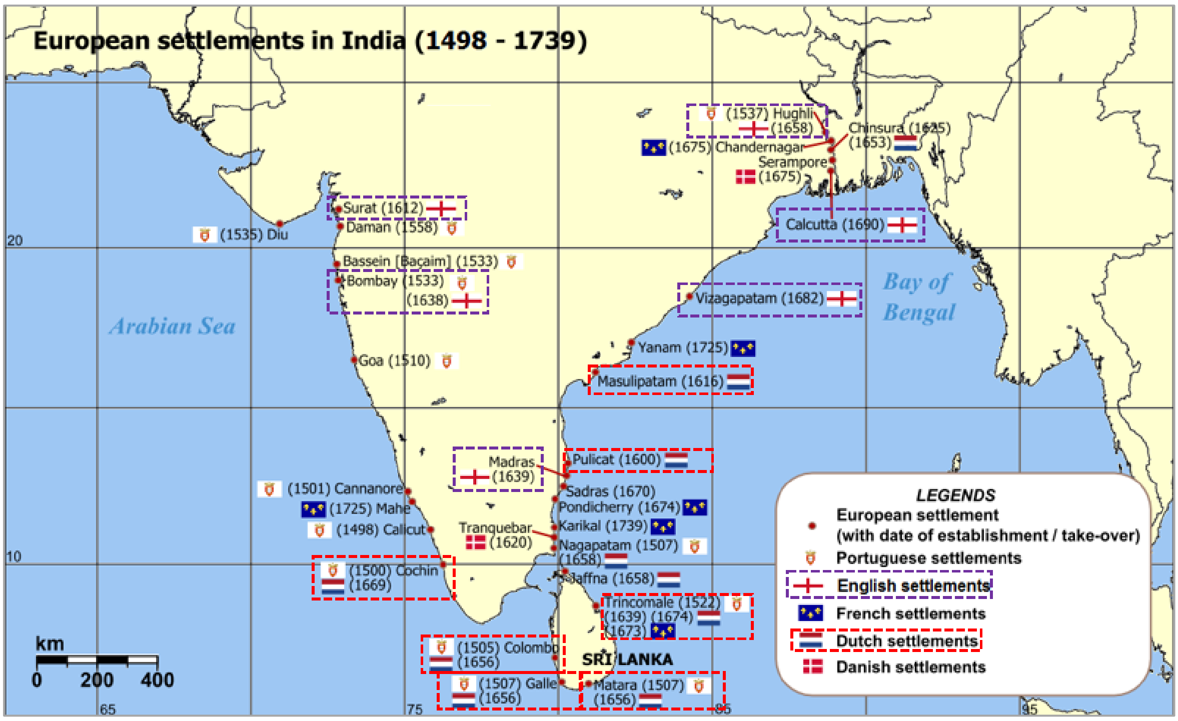


Figure 2. Strategic choices made by the Dutch VOC and the English EIC

The **product focus of the Dutch** led them to diversify across geographies and establish trading settlements all over the South East such as India (Cochin, Pulicat), Sri Lanka (Colombo, Galle) and Indonesia (Batavia, Bantam). On the other hand, the **product diversification strategy of the British** led them to set up their trading settlements at different locations across India (Bombay in the West, Calcutta in the East, and Madras in the South) to gain access to a wide variety of products from across the country. This is illustrated in Figure 3 below.



Source: http://www.history.upenn.edu/coursepages/hist086/material/schmidt26a.jpg

Figure 3. Major Dutch and English settlements in the Indian subcontinent

2. Ruthless Aggressors v/s Diplomatic Negotiators

"Your Honours ought to know by experience that trade in Asia should be conducted and maintained under the protection and with the aid of your own weapons, and that those weapons must be wielded with the profits gained by the trade. So, we cannot carry on trade without war, nor war without trade"

- Jan P. Coe, Governor General of the Dutch VOC, in a letter to his bosses (1619)[5]

''Let this be received as a rule - if you seek profit, seek it at sea, and in quiet trade; for without controversy, it is an error to affect garrisons and land wars in India"

- Sir Thomas Roe, English Ambassador to India, in a letter to the English EIC (1616)[6]

The two statements above illustrate the stark difference between the strategies of the two nations in establishing trade relations with India.

The Dutch followed the strategy of single-minded commercial aggression. Thus, they indulged in widespread and ruthless acts of violence in the East. In 1621, Governor General of the Dutch VOC Jan P. Coe (to whom the quote cited above is attributed) led an armed assault against the inhabitants of the Banda Islands in Indonesia. Of the 15,000 people who inhabited the island at that time, only a thousand are said to have survived the brutal aggression of the Dutch. The Dutch then resettled the islands with slave labour from other islands who were forced to cultivate items of trade that the Dutch wanted. The VOC also had a penchant for looting rival ships and intimidating English merchants. This led to "constant tensions and even an outbreak of hostilities in 1617-19 when the Dutch seized four English ships".[7]

While the Dutch VOC followed a strategy of coercion, the English EIC followed a strategy that was anchored on diplomatic ties. "*The best way to do your business in this*[8] *court is to find some Mogul that you may entertain for 1000 rupees a year as your Solicitor at Court. He must be authorised by the King, and then he will serve you better than 10 ambassadors*", wrote English Ambassador to India Sir Thomas Rue in a letter to the English EIC in 1616.[9] The British's strategy of developing diplomatic relationships helped them gain the patronage of Indian rulers – after Sir Thomas Roe's visit to India, the English EIC was granted a *firman* (royal permit) by the Mughal emperor Jehangir to trade freely from Surat. It is important to note here that these trade concessions were achieved without any war or bloodshed, unlike the Dutch occupation of Indonesia.

The Dutch VOC, riding on its aggressive military strategy, quickly spread throughout Asia. Not only did it establish itself in Jakarta (Indonesia), it also established itself near Japan (being the only foreign company allowed to trade there, 1609), along the Malabar Coast in

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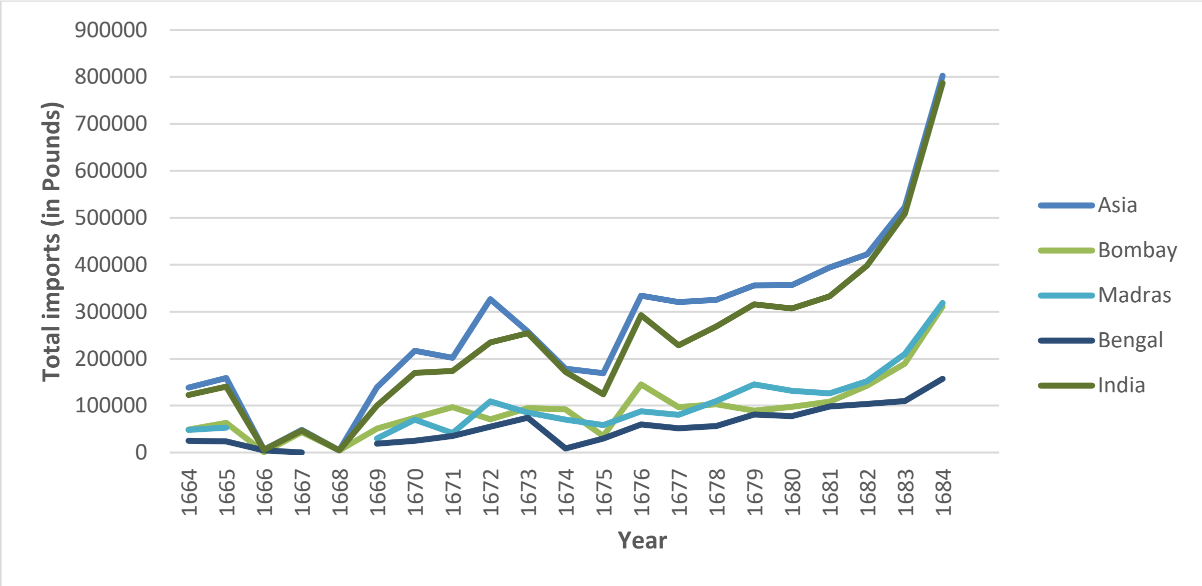
[5] *The Political Economy of Merchant Empires.* James D. Tracy (1997). Pg. 179-180.
[6] *A Collection of Voyages and Travels.* John Churchill (1704). Pg. 807
[7] *Mercantilism as a Strategic Trade Policy.* Douglas A. Irwin (1991). Pg. 1300.
[8] A reference to the Mughal Emperor Jehangir, who ruled 1605-1627.
[9] *A Collection of Voyages and Travels.* John Churchill (1704). Pg. 809

India (removing the Portuguese, 1669), in Sri Lanka (1656) and in the Cape of Good Hope in South Africa (1652).[10] However, given the high level of overhead it took to maintain the VOC outposts throughout Asia, the borrowing and lack of capital ultimately undermined the VOC. Further, the company paid high dividends under shareholder pressure, sometimes funded by borrowing, which reduced the amount of capital reinvested into the Company.[9]

If the Dutch VOC was the hare among the East India trading companies of Europe, the EIC proved to be the tortoise.[11] When the Dutch were experiencing financial troubles owing to the growing costs of maintaining its many settlements across Asia and poor financial management, the English East India Company experienced an economic boom during 1660-1684 (see Figure 4). The 1680s, which saw 200,000 pieces of textile being imported from Bengal alone every year, marked the peak of the boom.[12] During 1664-1680, the company's share price quadrupled from £60–£70 to £300.[11] The Company also paid out substantial dividends to its shareholders. During the 1670s, the Company paid out an average 20% dividend.[11] In 1680, 1682, 1689 and 1691, a 50% payout was made.[11]



For raw data, refer to Exhibit 1.

Figure 4. Imports of the English East India Company

Thus, we see that during the 18th Century, while the English EIC expanded its trade with Asia, the Dutch VOC declined (see Figure 5 below).

[10] *The Rise And Fall Of The Largest Corporation In History.* Bryan Taylor. Business Insider (2013)

[11] *The Corporation that Changed the World – How the East India Company Shaped the Modern Multinational.* Nick Robbins (2006). Pg.46.

[12] *The Corporation that Changed the World – How the East India Company Shaped the Modern Multinational.* Nick Robbins (2006). Pg.46,47.

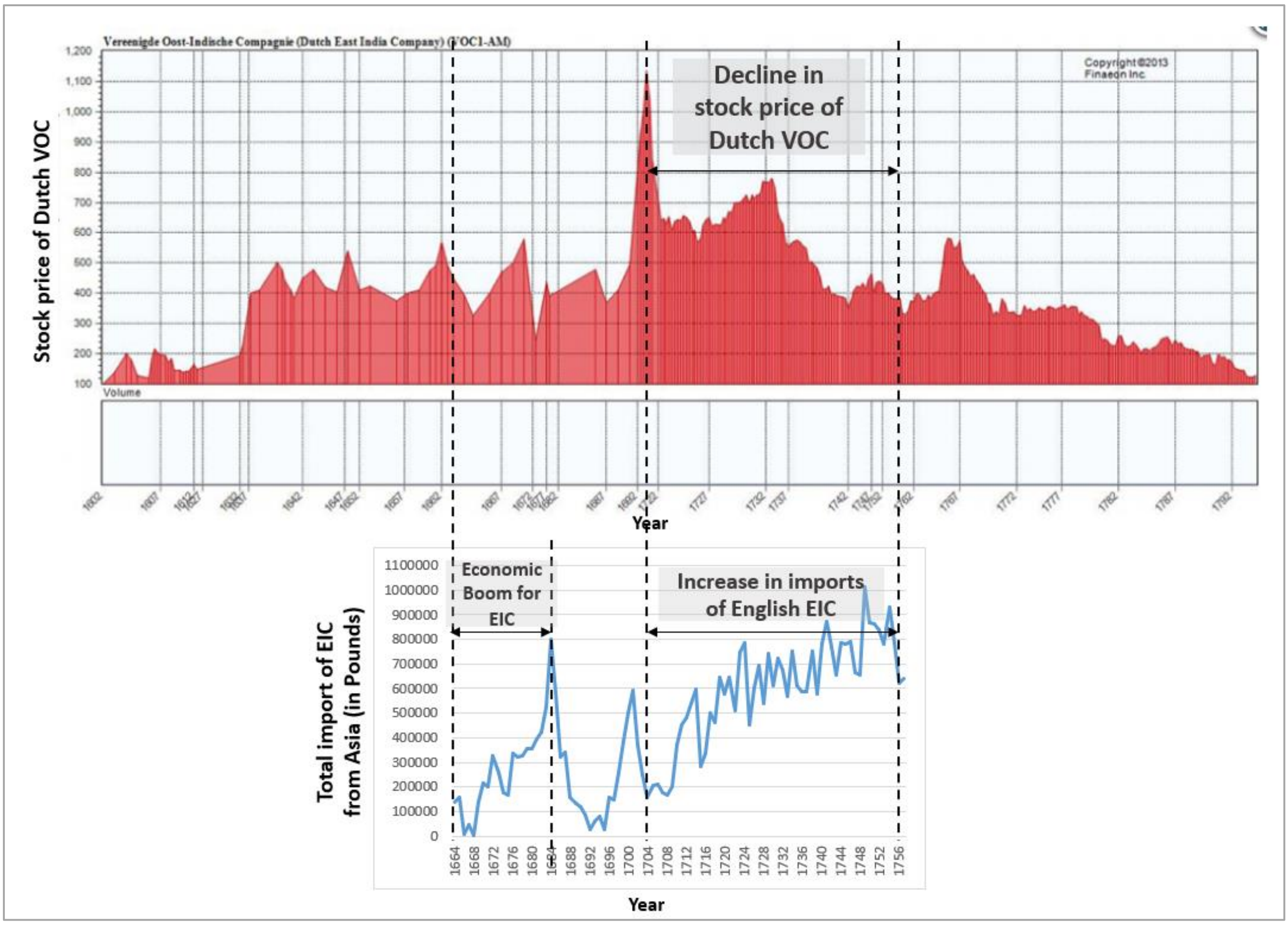


Image Source of Top Graph: *The Rise And Fall Of The Largest Corporation In History.* Bryan Taylor. Business Insider.
Data source of Bottom Graph: *The Trading World of Asia and the English East India Company (1660-1760).* K.N. Chaudhuri. Pg. 508.

Figure 5. The 1700s - The English EIC Grew While the Dutch VOC Declined

3. Corporate Governance Structures

"*It is not the number of ports, factories and residences that will profit you; they will increase charge but not recompense it. The convenience of one with respect to your Sails, and to the Commodity of Investments, and the well employing of your servants is all you need*"

- Sir Thomas Roe, British Ambassador to India,
in a letter to the English EIC (1616)

The English EIC was established as a joint-stock trading company in 1600. It was a limited-liability firm that was run for its shareholders. The Company held annual meetings to elect a Council of 24 Directors to manage the affairs of the Company and take key strategic decisions. This Council was elected by voting. Only those shareholders who owned more than £500 worth of stock were allowed to vote in the election of the Directors. However, no matter how large the shareholding, each shareholder had only one vote (a practice that is in contrast to modern companies that follow the principle of "one share, one vote"). Additionally, only those shareholders who had a minimum holding of £2000 of Company stock were allowed to put forth their candidature for Directorship. The elected Council of directors then elected from amongst themselves a Chairman (who was designated "Governor" of the Company) and a Deputy Chairman.

	English East India Company	Modern British Company
Formation	Via Royal Charter that had to renewed every 20 years	Incorporated for perpetuity
Voting rights	1 vote per shareholder	1 vote per share
No. of Directors	24	10-20
Mode of election of Directors	Annual elections	Staggered elections
Qualifications to be Director	Ownership of minimum £2000 worth of Company stock	No qualifications required
Mode of election of Chairman	Elected by Directors (indirect election)	Directly elected by Company shareholders
Board term	1 year terms; break of 1 year required after every 4 consecutive terms	Three-year terms; usually two terms

Adapted from: *The Corporation that Changed the World – How the East India Company Shaped the Modern Multinational.* Nick Robbins (2006). Pg.31.

The Council of Directors oversaw the operation of the Company's overseas subsidiaries, who were in turn run by a group Company executives (an early example of the **M-form** of organisation). The subsidiaries were organised along *Presidencies* that were essentially geographical units (eg: the Bengal Presidency, the Madras Presidency, and the Bombay Presidency). Each Presidency was headed by a *Governor*. While the Directors specified the goals and targets for the commerce the subsidiaries were expected to carry out in their Presidencies in terms of the price, quality and quantity of goods to be purchased, they left it to the local management to decide how to achieve those goals, including their relationships with local governments.

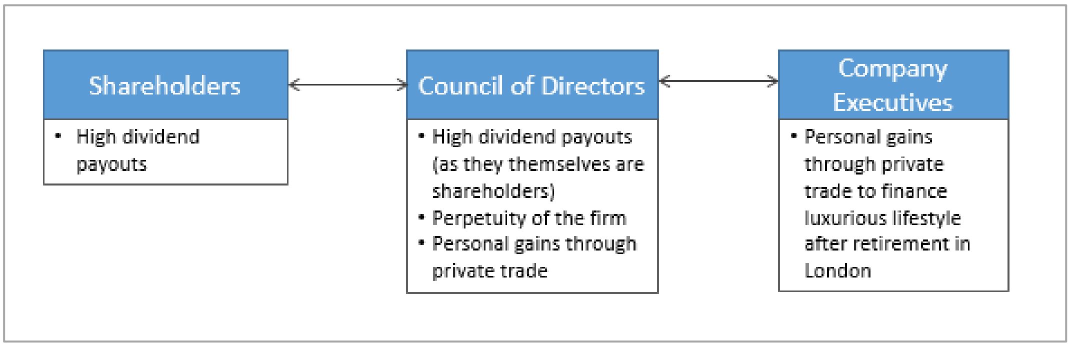


Figure 6. Motivations of different stakeholders in the English East India Company

The incentive structure of the Company's overseas staff included only a modest salary This salary was not enough to commensurate for the enormous risks that the Company's employees in trading with India, including the risk of death during voyage caused by disease or attack by rival naval ships, and the hardships of working in the tropical Indian climate. It was presumably to compensate for these risks that the employees were allowed to engage in **"private trade"**, that is trade whose profits did not accrue to the Company but to the individual instead. It is possibly in the difference between the Dutch and the English treatment of the regulation of private trade that one of the reasons for the decline of the Dutch VOC is to be found.

Unlike the Dutch VOC, the English EIC legalized the private country trade for its employees at an early stage.[13] For the EIC's employees, the purpose of a career was to amass enough private wealth to be able to retire into the ostentatious lifestyle of the British elite marked by conspicuous consumption. This could not be achieved through savings from the meagre salaries that the Company paid its employees. Thus, it was only through the provision for private trade, which allowed the employees to make huge sums of money through patronage, that the Company was able to attract recruits and provide employees a strong incentive to travel to and make their living in India.[14] The desire to expand their own private trade motivated the Company's employees to penetrate deep into local markets and develop relations with local merchants, which were in turn beneficial to the Company's own trade. More importantly, the official acceptance of private trade policy was a signal of the autonomy that the English EIC gave its employees, and illustrates the decentralised nature of decision-making in the firm. The policy transformed the company's employees into "mini entrepreneurs" as operational decisions such as choice of sea routes, selection of ports for docking etc. had now been delegated to low-level employees who were better informed about local nuances and sensibilities. Further, the decentralisation of the firm led to the development of horizontal communication channels and social networks within employees that guided decisions regarding everyday operations and exploration of new commercial opportunities. The adoption of private trade allowances in the English EIC institutionalized a pattern in which agents and principals interests were independent but aligned.[15]

While the English VOC followed a policy of decentralization, the Dutch VOC remained stuck in patrimonial networks of power. Patrimonialism is an ideal type of political power developed by Max Weber in which ties of kinship, patronage, and personal allegiance constitute the foundation for governing power.[16] Historians do not consider the Dutch VOC a "good employer"[17]. Salaries were low, and working conditions were harsh. While, the English Company was also a patrimonial organization, and low salaries were the norm with the English EIC too; private trade allowances in the EIC reduced exclusivity and broadened privileges within the firm.

Low salaries, harsh working conditions, and a ban on private trading meant that the Dutch VOC's employees indulged in venal behaviour and corrupt practices, eventually leading to administrative sclerosis in the firm. In fact, from about the 1790s onward, the phrase "perished by corruption" (or "*Vergann onder Corruptie"* in Dutch – an ominous reference to the abbreviation of the name of the company "VOC") came to summarise the company's future.

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[13] *Between Monopoly and Free Trade: The English East India Company (1600-1757).* Emily Erikson. Pg. 23.
[14] *The Corporation that Changed the World – How the East India Company Shaped the Modern Multinational.* Nick Robbins (2006). Pg.33.
[15] *The Corporation that Changed the World – How the East India Company Shaped the Modern Multinational.* Nick Robbins (2006). Pg.20.
[16] *Between Monopoly and Free Trade: The English East India Company (1600-1757).* Emily Erikson. Pg. 20.
[17] *A Dutch Castaway on Ascension Island in 1725*. Alex Ritsema (2010). Pg. 148

Conclusion:

In the section above, we examined the contrasting strategies of the Dutch VOC and the English EIC in India. The Dutch VOC's inability to diverse into textiles and other items of trade as a consequence of their product focus on spices, their proclivity to engage in violent wars in pursuit of their strategy of single-minded commercial aggression, and administrative decay at the hands of widespread corruption caused by the company's inability to regularise private trade, led to its decline over the 18th Century. At the same time, the English EIC successfully diversified its product portfolio in response to market shifts, developed cordial diplomatic ties with local rulers and merchants in Asia, and created incentive structures for its employees that motivated them to work and create wealth in India, thereby eclipsing the Dutch VOC.

The Fourth Anglo-Dutch War of 1780-1784 was the final nail in the coffin for the Dutch VOC - it left the company a financial wreck. The Company was nationalized in 1796 and its charter was allowed to expire on December 31, 1799. Most of the VOC's Asian possessions were ceded to the British after the Napoleonic Wars (1799-1815) were finished, and the English East India Company took over the VOC's infrastructure, thereby making it an even more dominant force in the *Game of Thrones*[18] concerning European trade with Asia.

[18] *Game of Thrones* is a widely popular fantasy drama TV series that chronicles the violent struggles between dynastic families for control of the Iron Throne of the fictional Seven Kingdoms of Westeros. Watch the trailer of the latest season here: https://www.youtube.com/watch?v=IxI8aPISq8I

QUESTION 2

What led to the transformation of the English East India Company from being an association of traders to becoming the political administrators of India?

As we noted in the previous section, till the 1750s, the English East India Company was essentially an association of traders that was bringing steady stream of profits for its shareholders, good prices for its suppliers of textiles in India, cheap imports for customers in Britain, and significant revenues in custom duties for both the British and Indian treasuries.[19] However, less than a century later, the Company Act (1833) enacted by the British Parliament stripped the Company of its commercial privileges and instead established it as the political administrator of the British Empire in India, which encompassed 62% of the Indian Subcontinent. In this section, we analyse what led to this radical transformation in the character of the Company in India.

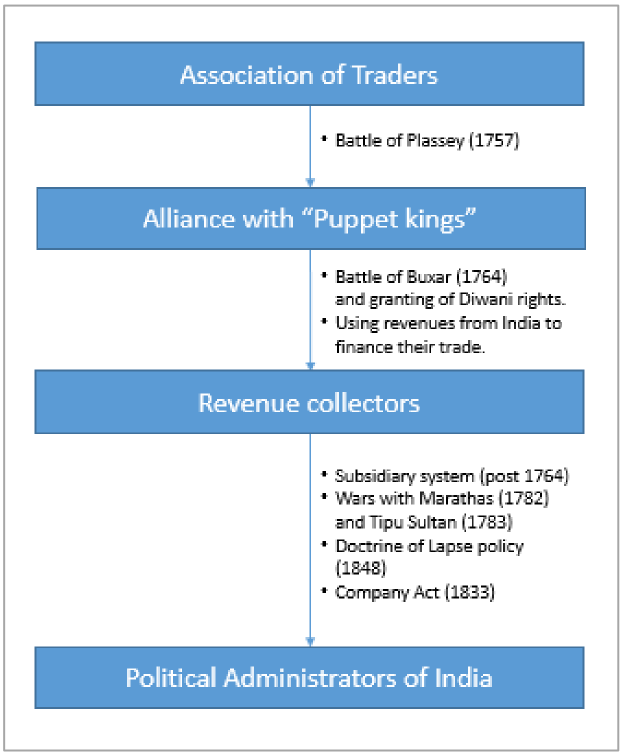

Figure 6. Evolution of the English East India Company (1757 - 1833)

Association of Traders

As mentioned in the previous section that compared the strategies of the Dutch VOC and the English EIC, the 18th century witnessed the decline of the Dutch VOC and the steady growth of the English EIC in India.

Bengal was a crucial settlement for the British in India - the growth of the export of textiles from the province during 1690 - 1740 had gradually built up the importance of the Bengal

[19] *The Corporation that Changed the World – How the East India Company Shaped the Modern Multinational.* Nick Robbins (2006). Pg.34.

Presidency to the English EIC.[20] Easy availability of raw materials, a productive agricultural sector and highly skilled artisans meant that textiles from Bengal offered the unbeatable proposition of high quality at low prices. In fact, the cost advantage was such that cottons from Bengal could be sold in Britain at a price 50-60% lower than those fabricated domestically, and still make a profit.[21] The Company also enjoyed duty-free trading rights in the region through a *firman* issued by the Mughal emperor Aurangzeb. Even though Bengal was ruled by its own Nawab at that time, the Nawab owed his allegiance to the Mughal emperor, and thus the Mughal emperor's *firman* was applicable in his province too.

The authority of the Mughals was challenged after their humiliating defeat at the hands of Persian invader Nadir Shah, who crushed Mughal Emperor Muhammad Shah's army at the Battle of Karnal in 1739. This event triggered fragmentation of the political authority of the Mughals over India. In the years that followed, local rulers started asserting their independence, most notably Bengal. In 1756, Siraj-ud-daulah became the Nawab of Bengal. As soon as he became the Nawab, he began asserting his autonomy, and in the process alienated the local *zamindars* (large landowners) and the Jagat Seths (bankers to the Royal Treasury). Siraj-ud-daulah alleged that the British were violating the *firman* issued by Aurangzeb by not paying duties on the personal trade carried out by its employees, whereas the *firman* exempted only Company trade from payment of duties. When the Nawab demanded that all European trade companies pay duties for the trade they carried out in his province, other European powers yielded, but the British refused to pay. Negotiations between the Nawab and the British on this front ended in a deadlock, and the Nawab attacked Fort William, the Company's army headquarters, and captured Calcutta, the Company's major trading port in Bengal in June 1756.

Post this incident, the Company was faced with a major strategic choice: they could've (a) paid the duties demanded by the Nawab, or (b) retreated and given up Calcutta, or (c) attacked back with the military power available to it at Madras (Chennai).

Evaluating the three choices outlined above on the drivers of strategic choice (opportunity, advantage, ambition), we see: given the fact that Bengal was a very crucial driver of the EIC's profitability in India, ceding trading rights and withdrawing from the Presidency was not an option. They could've agreed to pay the duties required by the Nawab. However, not only would that have hurt the Company's profits, there was no guarantee that the Nawab won't impose further restrictions on the EIC's trade in Bengal. Considering the fact that the Nawab had alienated most of his supporters and was a weak enemy, retaliating was the most suitable option for the Company.

[20] *Indian Society and the Making of the British Empire.* C.A. Bayly (1987). Pg. 49.
[21] *The Corporation that Changed the World – How the East India Company Shaped the Modern Multinational.* Nick Robbins (2006). Pg.61.

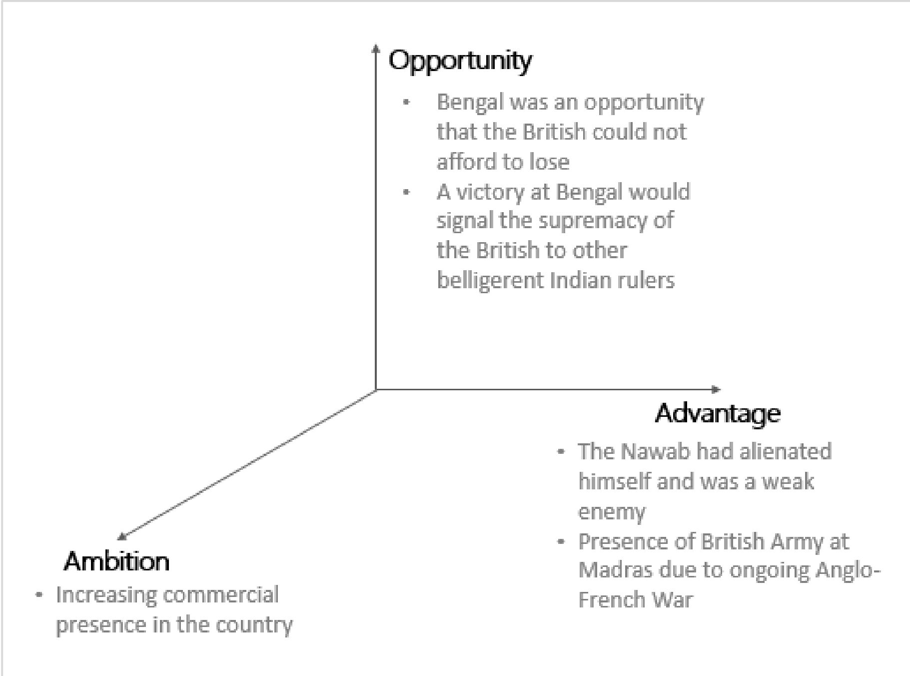

Figure 8. Capture of Calcutta (1757) – Drivers of Strategic Choice for the English EIC

The Company sent in its army from Madras to fight the Nawab under Robert Clive. Clive colluded with Mir Jafar, the Nawab's Commander In-Chief, by promising to make him the Nawab in case the British won. In June 1757, the armies of the Nawab and the EIC met at the Battle of Plassey. Mir Jafar refused to cooperate with the Nawab, and the British won the battle. Siraj-ud-daulah was executed, Mir Jafar was made the Nawab of Bengal, and the Company's trading privileges in the region were re-instated.

Alliance with "Puppet Kings"

"*I do not want to aggrandize the Company at the expense of all equity and justice; long may the Subah (Nawab) enjoy the advantages gained by our arms, if he abides strictly by his treaties*"

-Robert Clive, after the victory at Plassey (1757)

After the victory at Plassey, the Company's prime ambition was not to become the rulers of Bengal, but only the expansion of its trade.[22] It thus decided to install Mir Jafar as a "puppet king". He was to ensure a conducive trading environment for the English EIC. In return, the Company agreed to maintain its army in Calcutta to protect the Nawab from aggressors. To cover the expenses incurred in maintaining this army, the Company secured the right to collect revenues from a small number of villages in the Presidency.

As time went by, the Company realised that working with "puppet kings" was rather difficult. Mir Jafar intensely resisted the dominance of the British as he wanted to exert his own autonomy. In 1760, the Company replaced him with his son-in-law, Mir Qasim. In 1763, Mir Qasim too started demanding custom duties from the Company, the Company deposed him from the post of Nawab and drove him out of Bihar. The following year, he, along with Mughal Emperor Shah Alam II and the Nawab of Awadh attacked the Company at Buxar. On October

[22] *Our Past – Textbook in History for Class VIII (Part III).* NCERT (2014). Pg. 14.

23, 1764, the Company won the Battle of Buxar. Mir Jafar was once again made the Nawab of Bengal albeit with restrictions.

Revenue Collectors

"*We must indeed become the Nabobs ourselves, if not in name, perhaps totally so without disguise*"

- Robert Clive in a letter to Sir Thomas Roe after the Battle of Buxar (1765)[23]

After being defeated by the English EIC's army at the Battle of Buxar, Mughal Emperor Shah Alam II offered the *Diwani* (revenue collection) rights of three provinces (Bengal, Bihar and Orissa) in return for annual payments of INR 2,600,000 to the Emperor. This culminated in the singing of the Treaty of Allahabad on August 12, 1765.[24]

Till this point in time, the English had to import gold and silver coins from Britain to pay for its trade in India. When revenues from the three provinces started flowing in, the Company realised that these revenues could be used to finance its trade with India. **It was this realisation of the economic potential of the annexation of Indian states that marked the beginning of the Company's imperialistic ambitions in India.**

Political Administrators of India

After the Battle of Buxar (1764), the Company appointed *Residents* in Indian princely states to further their own commercial and political interests. The Residents started interfering in the internal affairs of the states – they tried to influence who succeeded the king, who was appointed to administrative posts etc.

Lord Wellesley (Governor General from 1798-1805) introduced the Doctrine of Subsidiary Alliance. During the late 18th Century, India was a collection of many weak and fragmented princely states. According to the Doctrine, the British would provide a subsidiary military force to the Indian states in return for payment of an annual fees. If the Indian rulers defaulted on their payments, their territories were taken away. Since the princely states at that time were weak and wary of each other, many accepted the offer. The British, in turn, used this Doctrine to annex new states when they defaulted on their payments, such as Awadh in 1801 and Hyderabad in 1798.

The British fought wars to annex states that did not acquiesce to the Doctrine of Subsidiary Alliance. They gained control of all territories to the South of the Vindhyas after their victory at the Third Anglo-Maratha War (1817-1819). They also annexed the Mysore kingdom after defeating Tipu Sultan at the Battle of Seringapatam (1799).

Under Lord Warren Hastings (Governor General from 1813-1823), the English instituted the policy of "paramountcy", under which the Company claimed that its authority was "paramount"

[23] *Reports from Committees of the House of Commons, Volume 3*. House of Commons (1771). Pg. 404.
[24] The painting on the cover page of this report is an illustration of this event.

or "supreme" over that of the Indian states and that it was thereby justified in annexing Indian states to protect its own supremacy. Under this policy, the British annexed Punjab in 1849.

The "Doctrine of Lapse" policy, instituted by Lord Dalhousie (Governor General from 1848-1856) was the final tool used by the British to annex the remaining kingdoms in India. It stated that a kingdom would "lapse" into the control of the British if its ruler died without a male heir. Through this policy, the British annexed the kingdoms of Udaipur (1852), Nagpur (1853) and Jhansi (1854).

BUILD	BUY	ALLY
"Greenfield" settlements: • Calcutta (1698) • Madras (1639)	Territories annexed through Wars: • Maratha (1819) • Mysore (1799) • Punjab (1849)	Territories annexed through the Doctrine of Subsidiary Alliance: • Hyderabad (1898) • Awadh (1801)

Figure 9. Expansion Strategies of the English EIC in India

When looked at through the lens of modern strategy theories concerning *market expansion*, we see that the British followed all three strategies – *Build*, *Buy*, and *Ally* – to annex territories in India (see Figure 9).

<u>Conclusion</u>

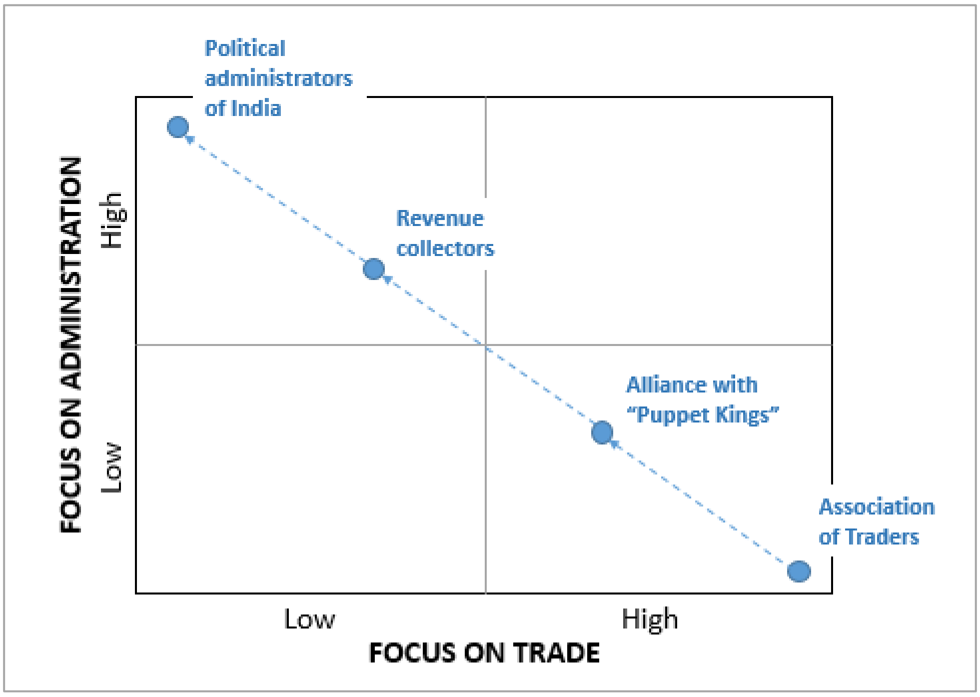

Figure 10. Transformation of the English EIC from an Economic Entity to a Political Entity

In the preceding section, we analysed how the English EIC transformed from being an association of traders, to becoming the political administrator of India. What began in 1756 as a **risk mitigation strategy** against the inaction of policies unconducive to the Company's trade by belligerent Indian rulers, rapidly evolved into an all-out **expansion strategy** across India motivated by the potential economic gains from a new stream of revenues.

Just like in classical **product life cycle** theory the introduction of a new product is accompanied by a decline in the importance of the old product to the firm - as the Company expanded in India, its dependence on revenues from trade (*old product*) fell, and its dependence on revenues from tax collections in India (*new product*) increased.

The transformation from being *traders* to being *rulers* required the Company to develop **new capabilities**, including military strength (the Company increased the size of its army from 40,000 in 1784 to 65,000 in 1814)[25], and institutional capabilities (circuit courts were established by the English EIC at Calcutta, Dhaka, Murshidabad and Patna).

The Company Act of 1833, which put an end to the commercial activities of the Company in India and established it as a purely administrative body, marked the completion of this transformation.

EPILOGUE

The expansion strategy of the English EIC imposed great financial cost on the Company. In fact, the Company had to be rescued by the Government in 1771 through a bail out, making it one of the earliest examples of firms deemed by their governments to be "too big to fail". To finance its aggressive military campaigns, the Company resorted to exploitation of the peasants in the country through imposition of exorbitantly high taxes. Such measures created widespread discontentment against the Company, which culminated into the Revolt of 1857 that marked the end of the Company's rule in India.

[25] *Bengal: The British Bridgehead. Eastern India (1740-1828).* P.J. Marshall (1987). Pg. 94.

EXHIBITS

Exhibit 1: Imports of the English East India Company (1664-1684)

Year	**Total imports (in Pounds)**				
	Asia	**Bombay**	**Madras**	**Bengal**	**India**
1664	138278	49181	48496	24882	122559
1665	158755	63130	53100	23867	140097
1666	5877	909	--	4875	5784
1667	48539	43286	3766	114	47166
1668	4575	4556	--	--	4556
1669	138808	51239	30056	19069	100364
1670	216927	74181	70182	25358	169721
1671	201825	96816	41152	35563	173531
1672	326924	70698	108810	55200	234708
1673	257836	94750	85204	74129	254083
1674	178411	92090	70432	9040	171562
1675	169172	35471	58568	29732	123771
1676	334424	145324	87510	59622	292456
1677	320823	96402	80376	51413	228191
1678	325593	102725	109685	56411	268821
1679	355906	89366	145481	80709	315556
1680	356465	97416	131532	77951	306899
1681	393921	108342	125816	98373	332531
1682	421917	142457	151860	103749	398066
1683	523039	189434	209658	109979	509071
1684	802527	311261	318527	157093	786881

Missing values indicate unavailable data.

Data Source: *The Trading World of Asia and the English East India Company (1660-1760).* K.N. Chaudhuri (1978). Pg. 508-510.

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