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# *Agency Problems in Early Chartered Companies: The Case of the Hudson's Bay Company*

ANN M. CARLOS AND STEPHEN NICHOLAS

The problem of controlling overseas managers confronts all multilocational firms. Historians have argued that because of the extreme time lags in communication, chartered companies were unable to control managerial behavior. We argue that not only did the Hudson's Bay Company understand the agency problem but also put into operation strategies designed to attenuate opportunistic behavior. The company used employment contracts and control systems and established a social structure compatible with the company's aims.

## INTRODUCTION

England emerged as an important trading nation during the reign of Charles II, 1660 to 1688. Although England already had a sizeable textile trade with Europe, the Restoration saw a movement into what have been called the "distant trades." By 1700 one-third of England's imports came from North America, the West Indies, and the East; these imports and their growth over the ensuing century made England a world entrepôt.[1] The work of economic historians has ably documented the rise, course, and structure of these trade patterns. As far back as 1954 Ralph Davis asked "why was it possible to expand these distant trades?" and over the years economic historians have advanced many explanations of this important but yet unanswered question, including supply- and demand-side changes in the market, innovations in transport and technology, and the general organization of commerce.[2]

This last factor has attracted considerable attention, since the growth of foreign trade coincided with the rise of the chartered trading

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[1] Ralph Davis, *England's Overseas Trade, 1500–1700* (London, 1973), pp. 5–32.

[2] Ralph Davis, "English Foreign Trade 1660–1700," in Walter E. Minchinton, *The Growth of English Overseas Trade in the 17th and 18th Centuries* (London, 1969), p. 80. See also Minchinton's "Introduction" in the same volume. Charles Wilson, *England's Apprenticeship, 1603–1763* (Oxford, 1965); and Peter Mathias, *First Industrial Nation: An Economic History of Britain, 1700–1914* (Mathuen, 1969).



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companies and was accompanied by a decline in the old "regulated" companies, such as the Levant and Eastland companies, which had formerly conducted the European trades.[3] Davis thought that the English East India Company and the charter companies in aggregate made a "large" contribution to Britain's overseas trade, while Charles Wilson was even more emphatic about the charter companies: "Without the resources which only the joint stock Company could mobilise, the expansion of trade in far-distant and turbulent lands would, at this stage, have been impossible."[4]

An equally strong view is that these companies were nothing more than monopoly franchises seeking rents. This theme is exemplified in economic writings as early as the work of Adam Smith. Continuing a tradition which had started at the beginning of the eighteenth century, Smith argued that the companies existed only because of their monopoly position, without which they could not have survived in the face of competition from individual traders. He wrote:

> The directors of such companies, however, being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a Company.[5]

Switching his attention from the directors to the overseas managers of the trading companies, Smith argued that exclusive privilege brought mismanagement and allowed "negligence, profusion and marversion of their own servants," which the companies were unable to control.[6]

Although Smith was arguing against monopoly and for competition, he identified the two major problems facing all multilocational and multinational companies. The first is the problem of control being separated from ownership; the second is how the directors or owners at home can ensure that their agents abroad work for the benefit of the company and not in their own self-interest.

Many economic historians concur with Smith's judgment about the early trading companies, arguing that they were unsuccessful because they were inefficient, evidenced by their inability to control their agents overseas. E. L. J. Coornaert wrote that "seldom or never did the companies set up a rigorous hierarchy. . . . For the most part the bonds between these agents and their companies were exceedingly tenuous;

[3] Wilson, *England's Apprenticeship*, p. 172. Regulated companies can be thought of most easily as licensing institutions. Merchants, on payment of an entry fee, were admitted to the company but thereafter traded on their own account. There was no joint ownership of stock.

[4] Davis, *England's Overseas Trade*, p. 43; and Wilson, *England's Apprenticeship*, p. 173.

[5] Adam Smith, *Wealth of Nations* (Homewood, IL, 1963), book 5, chap. 1, part 3, p. 255.

[6] Ibid., p. 265.

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distances were often immense, and everywhere the companies' representatives of all ranks were empowered to carry on trade for their private accounts and were often, in effect, the most dangerous rivals of their own companies."[7] The historian of the Royal African Company, Keith Davies, argued specifically that the company failed because "too much had to be left to the discretion of employees abroad who for the most part followed their own concerns to the detriment of the Company's."[8] Wilson reached the same conclusion about the Royal African Company but also pointed out that even the successful companies had to face the same problems in that their "servants were remote, [the] accounting system and methods of control inadequate."[9] Indeed, the most serious problem identified by historians seems to have been private trade by managers; for example, K. N. Chaudhuri identified private trade by the English East India Company's Asian managers as a major area of conflict, and Thomas Stuart Willan thought that the real evil for the Russia Company was private trade by its managers.[10] The major problem confronting the trading companies, therefore, was that of managing their managers at a distance.

Of course, it is important to remember that controlling managers of overseas branches is a problem for all multinational firms, whether early trading companies, nineteenth-century industrial multinationals, or today's transnational firms. For contemporary international firms, Richard Caves has written that the "cost of information and supervision, the difficulty of working out employment contracts that align the efforts of employees with the goals of the firm . . . limit the firm's pursuit of its ultimate goals."[11] Before the age of modern communications and transport, the problems of managing at a distance were in many ways more acute for the seventeenth- and eighteenth-century firms than for their modern counterparts. It is also important to realize that the seventeenth century witnessed the formation not only of English firms but of similar long-distance trading companies in the Netherlands, Sweden, Prussia, Portugal, Spain, and France.[12] These companies similarly grappled with the problem of controlling their overseas managers.

Yet, in spite of the assertions that the early trading companies failed or suffered from their inability to control their managers, there has been very little archival work done to ascertain whether the directors

[7] E. L. J. Coornaert, "European Economic Institutions and the New World: The Chartered Companies," in *Cambridge Economic History of Europe* (Cambridge, 1967), vol. 4, p. 262.

[8] Keith Davies, *The Royal African Company* (Oxford, 1957), p. 165.

[9] Wilson, *England's Apprenticeship*, p. 176.

[10] K. N. Chaudhuri, *The Trading World of Asia and the English East India Company, 1660–1760* (New York, 1978); and Thomas Stuart Willan, *The Early History of the Russia Company* (Manchester, 1956).

[11] Richard Caves, *Multinational Enterprise and Economic Analysis* (New York, 1982), p. 70.

[12] Coornaert, "European Economic Institutions," vol. 4.

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understood the nature of the agency problem and what steps, if any, they took to control the problem.[13] This article examines the agency problem that the Hudson's Bay Company faced because its directors were located in London, while the acquisition operations occurred around Hudson Bay in Canada. In at least this particular case, the company recognized the agency problem and looked for ways to control managerial behavior. We describe the ways in which this company sought to put into operation incentives and mechanisms designed to attenuate the problem.

## BEARING THE CHARGE WITHOUT HAVING THE ADVANTAGE

Long-distance trade requires that managers have some discretionary power, at the same time directors must ensure that such power is used to the best advantage of the company. This is the economics of the agency problem.[14] The stress put on this issue in the literature on the early chartered companies is easy to understand. For these companies there existed a tremendous time lag between the issuance of orders in England or in Europe and the appearance of commodities from afar. The turnaround time could take anywhere from eighteen months to two and a half years.[15] Even when the commodities arrived, the directors still had to ascertain whether the output before them was the maximum amount they should have received or whether their managers had cheated them. Cheating could involve mere shirking of effort or could involve a more active policy of trading for commodities on one's own account at the expense of the company. This latter problem (private trade) is believed by most historians of the chartered companies to have been serious. According to Thomas Stuart Willan, although the Russia

[13] As a corollary, there has been no questioning of the types of situations in which agency problems are likely to arise. It is unclear whether economic historians thought that all multilocational trading companies faced an agency problem of the same magnitude or whether the magnitude (and the ability to control the agency problem) was related to the particular reasons for each company's existence. In this article we are taking, as given, the hierarchical structure of the Hudson's Bay Company, which implies a principal/agent relationship between the factories and the head office. The extent to which this was the most beneficial organizational structure is discussed in Ann M. Carlos and Stephen Nicholas, "Giants of An Earlier Capitalism: The Early Chartered Companies as an Analogue of the Modern Multinational," *Business History Review*, 26 (Autumn 1988).

[14] This section relies on Kenneth Arrow, "The Economics of Agency," in John Pratt and Richard Zeckhauser, eds., *Principals and Agents: The Structure of Business* (Boston, 1984), pp. 27–51; Neil Strong and Michael Waterson, "Principals, Agents and Information," in Roger Clarke and Tony McGuinness, eds., *The Economics of the Firm* (Oxford, 1987), pp. 18–61; Michael Jensen and William Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," *Journal of Financial Economics*, 3 (Nov. 1978), pp. 305–11; Stephen Ross, "The Economic Theory of Agency: The Principal's Problem," *American Economic Review*, 63 (May 1973), pp. 134–49; Oliver Williamson, *The Economic Institutions of Capitalism* (New York, 1985), chaps. 2, 3, 7, 8; and Eugene Fama and Michael Jensen, "Separation of Ownership and Control," *Journal of Law and Economics*, 25 (June 1983), pp. 301–26.

[15] Carlos and Nicholas, "Giants of An Earlier Capitalism," gave a description of the physical organization of the long-distance trades.

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Company was concerned about "horedom [sic], incontinency, drunkenness, and idleness, the greatest evil was private trade."[16] In 1710 the Dutch East India Company accused its Bengali factories of putting aside the most profitable assortment of textiles for their own benefit.[17] The English East India Company complained that the inter-Asian trade was poorly developed because of private trade.[18] In 1691 the Royal African Company wrote: "We have reason to complain that our factors and some of the chiefs manage private trade which is the way to encourage interlopers and ruin our stock by bearing the charge without having the advantage."[19]

The Hudson's Bay Company was no exception. Douglas MacKay called private trade the "gravest of all Company offenses."[20] Edwin Ernest Rich, the company's main historian, wrote that "the business of private trade was a perpetual worry to the Company, as it always was to the East India Company. . . ."[21] In describing the letter of recall written to Charles Bayly in May 1674 Rich wrote: "He is to hand over all trade goods, stores and papers, and to 'bee assistante' to Lydall [new governor] in discovereing & preventeing private trade. *Always private trade*."[22]

The ability of agents to behave in their own self-interests occurs in situations of asymmetrical information and uncertainty. In asymmetrical situations the information between any two contracting parties is unequal. For the chartered companies, managers had more and better information about the foreign location, while the directors had more information about the firm. The presence of uncertainty meant that outputs could not be linked invariably with inputs or efforts of managers. For example, in the fur trade the harvest of furs was somewhat random. The severity of the winter, disease, or the activity of Indians or competitors had an impact on the level of trading activity. Only the managers in Canada observed the true harvest, not the company. If the supply of furs shipped was low, the directors could not have known whether this was because the harvest was low or because its managers were engaged in private trade. Informational asymmetries allowed the private trade problem to exist.[23] The resulting opportunism by managers

[16] Willan, *The Early History of the Russia Company*, p. 37.

[17] Kristof Glamann, *Dutch Asiatic Trade 1620–1740* (The Hague, 1981), p. 147.

[18] Chaudhuri, *The Trading World of Asia*, p. 208.

[19] Davies, *The Royal African Company*, p. 255.

[20] Douglas MacKay, *The Honourable Company* (Toronto, 1949), p. 67.

[21] Edwin Ernest Rich, ed., *Minutes of the Hudson's Bay Company, 1671–74* (London, 1942), vol. 5, p. 101.

[22] Ibid., pp. 101, 112, emphasis is added.

[23] An alternative way to phrase the problems arising from asymmetrical information and uncertainty is in terms of moral hazard and adverse selection. Moral hazard relates to the work effort of the agent, while adverse selection relates to informational asymmetries between counteracting parties. Thus the adverse selection problem allows the moral hazard problem to

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reduced company profits and increased returns to managers. Firms, therefore, needed to find ways to control their managers or to reduce the level of private trade.

An obvious place for any firm to exercise control is with the employment contract. The remuneration package and work provisions in employment contracts are critical in reducing opportunism and encouraging managers to work in the best interests of the firm by making it expensive for the worker to cheat. Firms can use both fixed and incentive fee payments to encourage managers to work hard. However, when information is asymmetric, changes in managers' efforts will remain less than perfectly detectable. Thus pay for performance systems may still invite shirking or in fact induce counterproductive efforts.[24] For their part, managers promise, as a condition of employment, to work hard and in the best interest of the company. Such promises are, of course, open to evasion.

Since employment contracts do not necessarily solve the problem of private trade, firms need to generate supplemental sources of information: systems of internal controls to monitor managers. Written records of decisions and notification of compliance to formal rules and procedures (accounting procedures, inventory systems, and fee-incentive structures) provide a flow of information to the head office. Thus output levels and information derived from the records form two separate but interdependent methods of checking on the work activity of managers. This can be further supplemented by seeking reports on managers from other employees and from third parties.

Not all monitoring and control devices which reduce shirking operate on the system of economic rewards and punishments. Firms are also social systems and have a social hierarchy and unique "culture," in which there are mores and values which sanction and prohibit certain types of behavior. Frequently directors try to create an ethical system, especially when the firm is a family concern.[25] Insofar as managers conform to the mores of the firm, they are constrained in their behavior and monitoring costs are reduced. An internal social system which instills values directly into managers is a powerful instrument used in a company's attempts to reduce private trade, to attenuate opportunism, and to encourage high levels of effort on the part of managers.

While there are ways in which firms can control the opportunistic tendencies of its managers, to do so is not costless. Incentives, such as high salaries or bonuses, and monitoring procedures all are costs to the firm. The profitability of the firm will depend on both the effectiveness

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exist, which, in turn, can result in self-seeking behavior by agents and a resulting loss in profits for the firm.

[24] George P. Baker, Michael C. Jensen, and Kevin J. Murphy, "Compensation and Incentives: Practice vs. Theory," *Journal of Finance*, 42 (July 1988), p. 599.

[25] Peter Buckley and Michael Casson, "A Theory of Co-operation in International Business" (University of Reading Discussion Paper in International Business, No. 102, Jan. 1987), pp. 1–39.

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of such measures and their costs. The key question therefore is the circumstances under which incentives and monitoring will be effective relative to costs.

Two features of the external environment are important in determining profitability: the cost effectiveness of monitoring, and the ease with which managers may engage in private trade. Both of these factors differed widely among the chartered companies and may help explain differing company successes.[26] The more highly cost effective monitoring is, the higher the firm's profitability for a given level of monitoring. In addition, the firm can change the level of monitoring (an endogenous choice variable) as its effectiveness changes and further increase its profitability. If private trade is costly and inefficient, we would expect less of it at any given incentive and monitoring levels by the firm, and hence higher profitability. Reductions in the efficiency of private trade in turn imply optimal changes in the incentives and monitoring strategy that further increase the firm's profits. Thus firm profitability and success may be fairly sensitive to exogenous environmental factors dictating the effectiveness of monitoring and the efficiency of private trade.

Taken together these two parameters go a long way toward explaining when a hierarchical-firm structure will succeed and when a firm will break apart. In short, when monitoring costs are low and the efficiency of private trade is low, a hierarchical firm is more likely to succeed.

Whether monitoring costs are high or low depends, in part, on the physical environment in which the managers operate. To the extent that operations take place in an environment with few contact points with the outside economy or when all managerial activity can only be conducted through a very small number of channels, then monitoring costs will be lower than in an environment in which this is not the case. Thus one would expect monitoring costs to be low, all else being equal, for the Hudson's Bay Company, whose managers were relatively isolated around Hudson Bay and were dependent on the company ship for communication.

It must be recognized, however, that Hudson Bay's isolated environment does not mean that the private trading problem can be ignored. The nature of the market in which a firm operates determines the impact of any level of private trade on profitability. In a very profitable environment a firm can afford to ignore some given level of private trading by its managers, but in a more depressed environment no level of private trade can be tolerated. Indeed, it is the nature of the market

[26] The Royal African Company, which was chartered in 1672, two years after the Hudson's Bay Company, faced a serious agency problem. Monitoring was difficult and agents could easily engage in private trade. For a discussion of that company's efforts to control its agency problem, see Ann M. Carlos, "The Royal African Company and Its Managers" (University of Western Ontario mimeo, Mar. 1990).

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in which the Hudson's Bay Company operated which helps to explain why this company was quickly unwilling to permit any private trade by its managers.

With its charter of 1672 the Hudson's Bay Company was given a monopoly position within England to carry on a fur trade in Hudson Bay. The charter did not free the company from competition in either its input or output market. The Hudson's Bay Company faced from its inception almost continuous French competition. This rivalry was very intense. This took the form of traders approaching the Bay overland from the St. Lawrence River and coming into Hudson Bay by ship. It also involved war. "In the twelve years, 1686–97, the French attacked Moose, Rupert and Albany Rivers, New Severn, and York Fort three times; only once, at York in 1690, did they fail. The English sent two expeditions to the Bottom of the Bay and one against York Fort; only that of 1688 failed. . . ."[27] The wars with France brought financial problems. The price of furs fell while the price of the trade goods rose. Shipping and insurance costs rose, while in some years the company was unable to send even one ship to Hudson Bay. Indeed, Rich argued that the company's "survival was due to its mastery of the essentials of its trade as much as to the privileges which it enjoyed. . . ."[28] One of the essentials was "its firm adherence to close control" and "in particular, the increasing resistance to private trade by ships' captains and other servants of the Company. . . ."[29] Thus it is within the context of a war-troubled market that the company instituted a set of policies designed to reduce at least the level of internal competition in the company.

## A SYSTEM OF CONTROL

### *Contracts and Incentives*

The managers or "officers" at Hudson Bay were employed to perform two functions. The most important was trading for furs with the Indians, while the secondary function, also viewed as important by the London Committee, was managing the work force at the Bay. Inadequate performance and opportunism could occur in either of these areas, and it was the committee's job to decipher from the information flows what actually was occurring.

An examination of labor-management activity gives some insight into the way the London Committee operated. The committee had very strict expectations about the behavior of its workers. They were

[27] Edwin Ernest Rich, ed., *Hudson's Bay Copy Booke of Letters, Commissions, Instructions Outward, 1688–1696* (London, 1957), vol. 20, p. xx.

[28] Edwin Ernest Rich, *The History of the Hudson's Bay Company, 1670–1870* (London, 1958), vol. 1, p. 57.

[29] Ibid., p. 55.

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supposed to be sober, industrious, and, by and large, celibate; for example, a letter written by the committee in 1714 and read to the men required that "(a) all persons to attend prayers, (b) 'To live lovingly with one another not to swear or quarrel but to live peaceable without drunkenness or Profaneness', (c) No man to meddle, trade or affront any of Indians, nor to concern themselves with women."[30] Initially, the expectations of the committee were infrequently, if ever, met. The managers, in letters to the committee, claimed that they were unable to control the labor force because the workers were unsuitable for their jobs. The committee then had to use the information flows to determine to what extent its managers were to blame or its work force was unsuitable. Since most servants had been hired in London and were used to a life that countervened the requirements of prayer, sobriety, and peacefulness, the London Committee chose to give its managers the benefit of the doubt.

Instead of chiding the managers for allowing the men to get drunk, the committee pursued a strategy designed to alleviate the problem and to make easier both the supervisory task of the manager and the deciphering task of the committee. The committee changed its labor force, trying to find workers who were more ideally suited to life on Hudson Bay. Within a few years of operation, the committee started to hire from Scotland, the view being that Scots would be more used to the cold. This did not solve all problems. By 1700 the company started to hire from the Orkney Islands, which quickly became the sole source of labor.[31] Conditioned by life on the Islands, Orcadians were particularly suited to the conditions at Hudson Bay. Now, the committee was better able to judge the performance of its manager. To the extent that brawling, drunkenness, or other forms of "loose living" occurred, the manager was deemed responsible and might be brought home or sent to another post as a second-in-command.

The primary function of the managers on Hudson Bay was to acquire furs for the company, and it is in this area that the problem of opportunistic behavior loomed large. To counteract this behavior, the London Committee used a variety of contracts and incentives to ensure adequate performance by its managers.

[30] Harold A. Innis, *The Fur Trade in Canada* (Toronto, 1930), p. 135. For a more detailed discussion of the Orcadians in the Hudson's Bay Company, see John Nicks, "The Role of Orcadians in the Fur Trade," in Arthur Ray and Carol M. Judd, eds., *Old Trails and New Directions: Papers of the Third North American Fur Trade Conference* (Toronto, 1980); and Rich, *The History of the Hudson's Bay Company*, vol. 1, pp. 377–92. These regulations reduced the problems that can occur when small groups of individuals live together in crowded circumstances for long periods of time. The use of Orcadians may have further reduced the tensions that could have arisen.

[31] The desire to change the work force was reinforced by the wars with France. Due to the wars men were no longer easily available in London because of press gauges, and the route north was safer than going south along the British channel.

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Each individual hired by the Hudson's Bay Company was given a formal contract that specified the number of years to be spent on the Bay, the salary, and any other stipulations that might have been negotiated, such as care of a wife or children in the event the man died. The money wages paid underestimated the real wages since the company provided housing, food, and transportation to and from the Bay and a multiyear contract. Even so, in comparison to a list of wages for British workers, the managers were very well paid for the period.[32] Charles Bayly, the first governor at Hudson Bay, was initially given a salary of £50 per annum, but that was quickly raised to £200. A successor, John Nixon, had an initial salary of £100, which was raised to £200 in his second year of office.[33] High salaries, by increasing the opportunity cost of opportunistic behavior, helped potentially to reduce such activity. The fact that men regularly throughout the eighteenth century renewed their contracts at the Bay is further evidence that salaries were generous and perhaps that opportunism was not a problem.

The policy of high salaries was reinforced both by salary increases and commendations and by gratuities. During the early years of the company's history, the committee seemed to have had a deliberate policy of encouraging increased effort through end-of-year monetary rewards, which were not necessarily tied to increased output levels. The company's belief that such a policy increased work effort is evident in a letter of 1690 to George Geyer, governor of York Factory:

> Having Resolved on our parts not to faile of giveing encouragement to all whome wee find dilligent and active to promote our Interest, Wee have amongst others taken into Consideration Mr. Lawson the warehousekeeper and being well satisfied of his Carraidg and Care in the station, have ordered him a gratuity of Twenty pounds, and moreover Complyed with his humble request in Increasing his sallary to Forty pounds p. Ann.[34]

Making the same point, the company wrote to one Mr. Walsh in the same year, "you may see our Resolves to Leave noe merritt unrewarded for your further encouragement in the Preservation of our Rights and Encrease of the trade wee have voted you fifty pounds Gratuity, over and above your Fixed salary."[35] Not only were gratuities commonplace but they were large. In the examples presented here gratuities ranged from 50 to 100 percent of salary.

In addition to high real wages and gratuities which should have

[32] Jeffrey Williamson, "Structure of Pay in Britain, 1710–1911," in Paul Uselding, ed., *Research in Economic History* (Greenwich, CT, 1982), vol. 7, p. 48, appendix table 4. Salaries for the men at the Bay are found in Innis, *Fur Trade in Canada*, pp. 124, 125; and in Rich, ed., *Hudson's Bay Copy Booke*, vol. 20.

[33] Rich, *The History of the Hudson's Bay Company*, vol. 1, pp. 81, 92.

[34] Rich, ed., *Hudson's Bay Copy Booke*, vol. 20, p. 103.

[35] Ibid., p. 105. Mr. Walsh was in charge of the factory at New Severn in 1690, earning a salary of £50 per annum.

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discouraged opportunism, contracts originally gave the men the right to trade for furs on their own account. In its instructions to the first ships sent out to the Bay, the company wrote:

> Some small private adventures may be also carryed by you and your men which wee doe not refuse to allow but doe absolutely restraine all persons from tradeing themselves with the Indians because thereby our Trade may be distroyed and the said Mr. Gooseberry [Grosseilliers] and Mr. Radisson loose theire credit with the Indians. Private ventures were therefore to be "disposed of in a like manner as our owne goods are."[36]

Why the committee allowed such a policy is still unresolved. It may have been that Grosseilliers and Radisson negotiated private trade as part of their contract or that the company was copying a policy to be found in other overseas chartered companies, such as the East India Company. In any event, private trade encouraged opportunism. Opportunistic managers, by purchasing the best furs for themselves and devoting a disproportionate amount of time to their private trade, reduced company profits. The London Committee quickly recognized that allowing private trade was not a useful policy, and within two years it was declared illegal.[37]

Even though the company banned private trade by its managers in 1672, it was not easy to eradicate the problem. The London Committee first looked for a solution within the formal contract structure by requiring that all managers and ships' captains take an oath declaring that they would not engage in private trade. The use of such an oath started very early in the company's history. In 1683 Captain Samuel Edwards, commander of the *Friendship*, appeared before the "Committee and made oath neither Directly or indirectly to derive any private trade outward or homewards dureing the present Expedition and to use all possible meanes he can to prevent private trade in others."[38] The success of oaths in reducing opportunism depends on the mores of the period and the character of the individual. Certainly some managers treated the oath seriously. For example, in 1685 Radisson and his group of Frenchmen initially refused to take the oath of fidelity which required them to restrain from private trade.[39] The company eventually came to an agreement with Radisson which excluded the right to private trade.

As well as having to take an oath, early managers were asked to post bonds. Indeed, in 1685, the same year in which Radisson and his men

[36] Rich, *The History of the Hudson's Bay Company*, vol. 1, p. 55. Médard Chouart Grosseilliers and Pierre Esprit Radisson sailed to London in the 1660s and were instrumental in launching a British attempt to get furs in northern Canada. Their efforts resulted in the formation of the Hudson's Bay Company.

[37] Rich, ed., *Minutes, 1671–74*, vol. 5, p. 38.

[38] Edwin Ernest Rich, ed., *Minutes of the Hudson's Bay Company, 1679–1684*. First Part: *1679–1682* (London, 1945), vol. 8, p. 228.

[39] Rich, *The History of the Hudson's Bay Company*, vol. 1, p. 179.

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had originally refused to take the oath of fidelity, the group was asked to put up bonds. Radisson gave a bond of £300 that he would make the voyage and a further bond of £2,000 that he would fulfill his covenant. The other Frenchmen were required to put up bonds of £500. Such bonds were asked not just of groups such as the French, who had shown a reluctance to abandon private trade, but of many of the company's early managers. As early as 1674 William Lydall, who had been chosen as governor to replace Bayly and was to be the second governor at the Bay, was asked to put up a bond of £1,000.[40] We have found little evidence that those bonds were forfeited, implying that they were successful in reducing opportunism. With the emergence of a professional managerial class within the company by the end of the eighteenth century, the use of bonds seemed to disappear.

Further experimentation by the London Committee led to the introduction of a new incentive within the formal contract structure. As well as multiyear contracts in which managers were well paid and abundantly supplied with commodities for their own tables, they were allowed to trap their own furs.[41] Rich argued that the company introduced private trapping as an incentive designed to keep men working in Hudson Bay during a time of possible French attack. Private trapping would raise men's income in a manner thought to be costless to the company. It also would increase the number of small furs which were selling well in England and possibly teach the men survival skills which would allow them to winter away from the posts.[42]

Although trapping increased managers' income and thus raised the opportunity cost of losing one's job, it brought the London Committee face to face, once again, with the issue of opportunistic behavior. Private trapping gave managers a mechanism for masking private trade and also opened the opportunity for unscrupulous managers to substitute company furs for their own poorer quality furs. To attenuate this problem, the conditions for private trapping and the penalties for cheating were carefully specified. In the letter of instructions sent out in 1701, the committee encouraged trapping "all sorts of small ffurs as ffox woolfe quickahash [Wolverene] Martin ffeathers, &ca." "All skins except those of foexes were to be delivered into the warehouse by the end of February and each man's catch would be sent to London under his own mark. One half of the proceeds from the sale by candle of these small furs and feathers would be paid to each man's order in London. If skins were concealed instead of being delivered into the warehouse the

[40] Ibid., pp. 79, 179.

[41] The letters sent to the Bay listed the commodities sent out for the managers' table, for example, "Clarett, Hock, Sack Soe and Sherry." See Rich, ed., *Hudson's Bay Copy Booke*, vol. 20, p. 234.

[42] Rich, *The History of the Hudson's Bay Company*, vol. 1, p. 374.

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offender would not only forfeit them but also all his wages.''[43] By requiring all furs to be in the warehouse before the Indians came to trade and by specifying penalties for abuses, the committee hoped to control private trapping. Nevertheless, private trapping was open to abuse and was, without monitoring, of questionable success in increasing managerial effort on behalf of the company. The company realized this and instituted a system of internal control to enhance the supervision of its managers and to curtail private trade and abuses of private trapping.

*Monitoring and Internal Controls*

At the heart of the company's ability to control the conduct of managers and to ensure that they performed satisfactorily lay a system of monitoring and internal controls. Private trapping had reintroduced the problem of private trade because privately trapped furs could not be distinguished in London from privately traded ones. As we said earlier, wiping out private trade was not easy. This was due both to the distances involved and the particular difficulties in monitoring ships' captains. The captains of the ships that arrived annually at the Bay acted as the main conduit for privately traded furs either by providing unofficial trade goods or by purchasing the furs from the managers for resale on the continent. Beginning in 1683 the men at the Bay were warned that all their baggage would be searched for contraband trade goods or illegal furs. This, however, only diverted the trade to the ships' captains. To combat this the committee searched the ships before they left London for contraband brandy and trade goods and for furs when they returned. The procedure for searching returned vessels was highly organized. The company minutes for December 1679 reported:

> Charles Wilmott and Jeremy Griffith being appointed to goe on board the *John and Alexander* and to stay there to prevent all Frauds and Embezelments, tooke their Oathes so to doe and carried with them a Letter to Capt. Walker to receive them on board.[44]

The oath the ''waiters'' took specified clearly what was expected. ''I doe Sweare to be true to the Governor & Company of Adventurers of England trading into Hudsons Bay I will go on board the ship *John & Alexander* as Soone as conveniently I can, and I will endeavour to my power to discover and prevent all frauds & Embezlements wch. are or may be comitted by any person or pesons there and I shall not come from on board the Sayd Ship untill she be delivered or I receave farther orders.''[45] In addition, the committee sealed all legal consignments of

[43] Keith G. Davies, ed., *Letters from Hudson Bay, 1703–1740* (London, 1965), vol. 25, p. 11. ''Sale 'by the candle' was a system in which an 'upset price' was called as the candle was lit and bids were made as the candle burned. Whoever had made the highest bid when the candle guttered out was the purchaser.'' Rich, *The History of The Hudson's Bay Company*, vol. 1, p. 68.

[44] Rich, ed., *Minutes, 1679–84*, vol. 8, pp. 11–12.

[45] Ibid., footnote on p. 11.

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liquor and trade goods before consigning them aboard ships in an effort to discover illegal trade goods when the ships were searched before departing for Hudson Bay. In spite of the precautions, some furs were still smuggled into England. In a report to the committee in 1682 Governor John Nixon wrote, "indeed most or all of them [men] have got private trade more, or less, which I cannot possibly come to the knowledge of, they being great with the masters and the ships company. . . ."[46]

The committee also had to prevent high-quality Indian furs being substituted for low-quality private furs and had to prevent trade goods being used for purposes of private trade, with the furs then being shipped as the returns on private trapping. These areas were difficult to monitor. In cases where the committee was suspicious of the size of private trapping, it demanded assurances from its managers that they had actually trapped all the furs and had not received them in exchange for presents or in gratitude from the Indians. According to Rich, the committee refused to believe, probably correctly, that a man could trap £100 worth of furs a year in addition to his ordinary work. In 1679 a martin skin, which was one of the most valuable of the small skins, sold for four shillings a skin in England. To earn £100, a man would have had to trap 500 good-quality skins during the winter months. In comparison Fort Albany received 915 martin skins in trade in 1701 and 369 in 1702. In those same years, Eastmain received 411 and 207 skins.[47] The problem of managers substituting low-quality furs for the company's furs does not seem to have been too serious. The London correspondence before 1763 recorded only one case of significant theft. In 1721 Mr. Hall, the warehouse keeper at York Factory, was accused of "taking ye best of ye comps out of ye Bundles and puting his worst Martins Instead thereof. . . ."[48]

The penalties for engaging in private trade were, from the company's perspective, severe ranging from reprimands to loss of posted bonds to demotion or dismissal. The severity of such penalties for the individual, however, depended on the availability of alternative opportunities. Clearly, opportunities were greater for ships' captains than for managers, since many more openings existed in the maritime trades for skilled captains, proven by the journey to Hudson Bay, than existed for the skills acquired by managers in fur trading.[49] Even if a man was not

[46] Ibid., appendix A, p. 244.

[47] Rich, ed., *Minutes, 1679–84*, vol. 8, appendix B, pp. 320–27, detailed the prices paid for furs at the sale held Feb. 3, 1679. See Arthur J. Ray and Donald Freeman, *"Give us Good Measure": An Economic Analysis of Relations Between the Indians and The Hudson's Bay Company Before 1763* (Toronto, 1978), p. 168, table 18.

[48] Ray and Freeman, *Good Measure*, p. 115.

[49] Hugh G. T. Aitken, "Defensive Expansionism: The State and Economic Growth," in Hugh G. T. Aitken, ed., *The State and Economic Growth* (New York, 1959), commented on the fact that

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dismissed for private trade, he could be held under suspicion by the company, which could mean denial of promotion. Of course, the company was well aware that it could use positive as well as negative incentives. For example, ships' captains were promised 20 percent of the value of any illegal furs confiscated. In spite of this incentive, no captains brought forward confiscated furs.

Private trapping was finally declared illegal in 1770. Its existence for 50 years suggests that the negative aspects of the scheme could not have outweighed the positive gains for the company. In fact, to compensate for the end of private trapping, the committee revised the salary scales. Managers now received £130 per year while ships' captains got £12 per month and £100 gratuity with extra allowances in lieu of their customary "presents." A bonus system was also introduced. Each manager received a bonus of three shillings per score of beaver traded and a ship's captain one shilling sixpence. In 1770–1771 this amounted to £172 for each chief factor, which was forfeited if the person took part in any illegal trade. However, this was an unusually large sum. This bonus scheme existed in some form until 1810, when for a number of years the company went back to a straight wage contract, but one in which the salaries were adjusted to take account of what could be earned under the bonus scheme. In 1810 the two superintendents (governors) each received £400 per annum, with chief factors receiving £150. These salary figures suggest that only a manager sure of remaining undetected would cheat; the opportunity cost of losing one's job was very high.[50] The change in schemes was part of a more complete change in the orientation of the company. The year 1763 marked the British conquest of French Canada and by 1770 an organized British trade from the St. Lawrence basin based along the lines of the previous French trade was well organized and already threatening to encircle Hudson's Bay Company posts around the Bay. In response the company finally started to establish permanent inland trading posts.

While the London Committee could and did search ships, baggage, and letters, it further enhanced its ability to control the conduct of its managers by determining the price at which the managers traded commodities for furs. From the first the committee wanted its methods of trade to be both conservative and consistent.[51] This resulted in two standards of trade: the *Official Standard* which valued all trade goods in the company's unit of account, a "Made Beaver" (the price of a single prime male beaver skin), and the *Comparative Standard* which assigned made beaver values to all furs received from the Indians. The establish-

some Hudson's Bay Company factors went to London to act as buying agents for the company, using the expertise gained in trade. These numbers, however, were never very large.

[50] Rich, *The History of the Hudson's Bay Company*, vol. 1, p. 602, and vol. 2, pp. 103, 291–92.

[51] Rich, *The History of the Hudson's Bay Company*, vol. 1, p. 64.

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ment of such standards helped to control the discretionary behavior of managers by making it more difficult to cheat and by eliminating competition which maximized the profits of branch plants at the expense of the company. These fixed price standards also satisfied the Indians' demand for certainty of the prices that they would receive for the skins.[52]

By exactly specifying the values of all furs and trade goods, the company controlled the discretionary behavior of its managers. The volume of furs received combined with the volume of trade goods sent gave the committee a high level of information about its managers. At the same time, as these fixed standards reduced the possibility of cheating by managers, they removed, however, all discretion over the terms of trade both from the company and the managers. Thus managers were denied the ability to give presents or, as Rich said, the scope to leave items around for the Indians to pick up in passing. The Indians, while enjoying fixed prices for furs, wanted a ceremonial aspect to the trade which required gift giving and presents.[53] The committee's motive for wanting to change the standard was the price inflation during the wars with France, which increased the price of trade goods and the costs of shipping while depressing fur prices. The lack of discretionary power by either managers or the London Committee operated to the company's disadvantage.

A study of the *Official Standard* shows that it neither varied much over time nor between posts.[54] But this invariance disguises the true nature of the trading relationship and, in particular, the ability of the London Committee to control its agents. Due to the war, the committee allowed the factors to depart from the official prices, writing that "the method of which is however left to your discretion so to manage as not to give any disgust to the natives."[55] As a result, the factor essentially tried to obtain what the market would bear from the Indians, being at all times circumscribed by the fact that the Indians knew the official prices for furs and what was received at other posts. Thus, what has become known as the *Factor's* or *Double Standard* occurred in those commodities most amenable to slight variations such as brandy, cloth, and tobacco, giving the factors goods on hand for ceremonial gift giving and discretionary presents.

The existence of the *Factor's Standard* reduced the company's control over its managers in that it created a bundle of trade goods

[52] Thus, just as the very existence of the branch plants around the Bay signified a long-term commitment on the part of the company, so too did these standards. See Arthur J. Ray, *The Indians and the Fur Trade* (Toronto, 1974), chap. 3, for a more complete discussion of these standards.

[53] Ibid., chap. 5.

[54] A. Rotstein and D. Foot, "The Two Economies of the Hudson's Bay Company" (University of Toronto Working Paper Series, No. 8710, July 1987).

[55] Rich, ed., *Hudson's Bay Copy Booke*, vol. 20, p. 78.

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which the managers could use to their own advantage, such as in private trade. To ensure that this was not the case, the committee had requested that the clerks and managers keep an itemized record of exactly what trade goods were sold for which furs in the *Account Book*. This proved to be impossible since a large volume of trade took place within a very short period of time, and the Indians were anxious to complete transactions quickly and start on their journey home. The committee then allowed the chief factor to make an inventory of the trade goods and furs at the end of each trading period. The account books, then, record the furs obtained, commodities traded, the goods remaining for both trade and post use, and the bundle of trade goods freed up by the use of the *Double Standard*. Arthur Ray and Donald Freeman described how this was done.

> The total quantity of each type of fur or country produce brought in by the Indians is . . . listed along with the aggregate M[ade] B[eaver] value of the commodities as determined according to the comparative standard. The value of the goods traded (priced according to the standard of trade) is then subtracted and the remainder is termed the "overplus". If all of the goods and furs had been exchanged according to the official standards listed in the account books, then the value of the furs received should have equalled that of the goods traded and there would be no overplus.[56]

Thus for each post each year a balancing item in the account books is the level of the overplus. The company sought to ensure that it received this information by laying down precise regulations and rigorous standards governing the way that the account books, post journals, and *London Correspondence Inward-Official* were kept.

For the *London Correspondence Inward-Official*, the company required that the letters be written in paragraphs, each coinciding with that in the *Correspondence Outward*. John Knight, chief factor at York in 1716, wrote in one of his letters: "I shall endeavour to follow your instructions as near as I can so I hope you'll excuse me from answering to every particular paragraph of your letter." In the 1730s James Isham, governor at Churchill, was repeatedly reproved by the committee for not writing his general letter home "in paragraphs in the approved manner."[57] The annual letter sent to each post at the Bay contained both the committee's instructions to that post and any questions, queries, or comments that the committee might have had concerning the account books received. These letters contained information relating to the regulation of the trade, the wages of men to be rehired, and the state of the market in England. For example, certain posts might be asked to

[56] Actual quantities of overplus made can be found in the factory accounts, with some amounts being given in Rich, ed., *Hudson's Bay Copy Booke*, vol. 20, p. xliv. A very detailed discussion of the composition of the accounts and derivation can be found in Ray and Freeman, *Good Measure*, chap. 9.

[57] Davies, ed., *Letters form Hudson Bay*, vol. 25, p. 58; and Rich, *The History of the Hudson's Bay Company*, vol. 1, p. 543.

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develop a timber trade or to increase trade in certain items such as feathers, whale oil, or castoreum. The *Correspondence Inward* were the factors' responses to the committee's yearly letter. The factors' letters usually began by acknowledging the receipt of the packet sent out and by detailing what documentation they were sending to England. Joseph Myatt's letter from Albany Factor in 1727 in its first paragraph stated that the committee "will find here enclosed together with the journal, weekly allowance, bill of lading, invoice and indent."[58] These letters then gave the number of Made Beaver shipped, explaining why the post had such a poor return or congratulating themselves on their hard work which had produced good results. They talked about how orders had been followed; for example, Myatt wrote in paragraph five: "According to your orders I have sent home six samples of the England brandy which came over this year with the number of each cask fixed to every sample and have likewise sent you a sample of the brandy which came over last year, but it is everyone's opinion it is nothing near so good as that which came over the year before. . . ." From these letters one can obtain a detailed picture of the way in which the managers at the Bay complied with the instructions sent out to them.

It was through comparison of the account books, the *Correspondence Inward*, the actual quantities of furs shipped from the Bay, and the committee's records of the trade goods sent from England that the London Committee was in a position to judge how their managers were handling the trade at the Bay and whether any manager was defrauding the company. This information flow gave the potential to audit each manager's performance, and the records indicate that the company used it to monitor its managers and make it more difficult for them to cheat, in particular through private trade. One way to monitor their performance was through examination of a number of indices that allowed comparisons through time and to reprove, dismiss, or identify inexperienced managers. One such index has been described by Ray and Freeman. They argued that the committee compared the level of overplus for each post with its level of expenses and used the resulting net return as a decision-making tool. Table 1 shows these figures for Fort Churchill during the decade 1721 to 1731. The overplus column measures the bundle of trade goods freed up by paying the Indians below the *Official Standard*. Some of these freed-up goods, however, were used in the gift-giving ceremonies associated with trade and were an expense of the trade. The table shows a dramatic reversal in the level of the net return in 1722, which continued for four years. Richard Norton was the chief trader during these years; in 1727, when he was relieved of his command, the committee wrote:

[58] Davies, ed., *Letters from Hudson Bay*, vol. 25, pp. 121–23.

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TABLE 1
FORT CHURCHILL: EXPENSES AND OVERPLUS

| Date | Overplus | Expenses | Net Return |
|---|---|---|---|
| 1721 | $2,826 | $1,140 | $1,686 |
| 1722 | 696 | 1,747 | −1,051 |
| 1723 | 630 | 1,365 | −735 |
| 1724 | 567 | 1,341 | −774 |
| 1725 | 634 | 1,853 | −1,219 |
| 1726 | 601 | 1,722 | −1,121 |
| 1727 | 2,017 | 908 | 1,109 |
| 1728 | 4,135 | 898 | 3,237 |
| 1729 | 3,131 | 896 | 2,235 |
| 1730 | 2,650 | 894 | 1,756 |
| 1731 | 4,769 | 1,956 | 2,813 |

*Notes*: The Hudson's Bay Company's official rates of exchange for trade goods and furs remained fixed for long periods of time. The actual rates of exchange on trade goods could vary. The amount by which the actual exchange rate differed from the official rate was termed overplus. Not all of this reflected a gain for the company, as some had to be used in gift-giving ceremonies and thus constituted an expense.
*Source*: Arthur J. Ray and Donald B. Freeman, *"Give us Good Measure": An Economic Analysis of Relations Between the Indians and The Hudson's Bay Company Before 1763* (Toronto 1978).

We observe in the Accounts you have sent us, that your over Trade hath been every year very small compared, with that of our other factories, and former Accts. from the fort you are at, . . . we have therefore ordered that you shall be removed to York Fort, and their, to be under the direction of Governor. Macklish, which we are certain, will be very much to your advantage, and improvement, in the knowledge of our Trade and Accounts.[59]

Anthony Beale, Norton's replacement, was able to reverse the net returns. When he died in 1731, he was replaced by Thomas Bird and three months later by Richard Norton once again, who was to maintain the level of net returns.

Although the level of net returns for a post provided information about a manager's performance, the size of the overplus and expenses for any post was affected directly by the amount of competition the company faced. An alternative measure was to look at the total return for the post in comparison to the merchandise exported to that post. Thus a post could have had a low net return due to intense competition, which would have lowered the overplus and raised expenses, but still have a reasonable terms-of-trade index between the fur return and the trade goods supplied. The policy was that a certain quantity of trade goods should receive a given quantity of furs in return. In Table 2 we have calculated such an index for the Eastmain and Albany factories for the decade 1804 to 1814. The existence of the official and comparative standards allow all fur returns and all trade goods to be denominated in Made Beaver equivalents. The standard used is that for 1801. The

[59] Ibid., p. 121.

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TABLE 2
COMPARISON OF TRADING PERFORMANCE

| | Ratio of Beaver Returns to Merchandise Exported | |
|---|---|---|
| | Albany Factory | Eastmain Factory |
| 1804 | 2.3 | 2.3 |
| 1805 | 2.1 | 2.1 |
| 1806 | 2.0 | 2.6 |
| 1807 | 1.8 | 2.0 |
| 1808 | 1.9 | 1.8 |
| 1809 | 1.5 | 1.1 |
| 1810 | 3.9 | 2.1 |
| 1813 | 3.1 | 1.3 |
| 1814 | 4.9 | |

*Notes*: The ratios are denominated in "Made Beaver" equivalents. A Made Beaver was the standard unit of account employed by the Hudson's Bay Company. A Made Beaver was the value of a prime beaver skin. All furs and trade goods were given a Made Beaver equivalent.
*Source*: Public Archives of Canada HBC MG20A53, MG20A25. Fur returns are missing for 1811 and are incomplete for 1812.

indices for each factor show a similar pattern of decline to 1810, then Eastmain and Albany diverge. In 1810 John Hodson was informed that he was no longer employed as chief trader at Albany, the committee writing that "for some time past there has been a want of that activity and vigour which can alone retrieve the hitherto declining trade from your parts."[60] The committee also expressed concern over the management of the Eastmain Factory. The response to the continuing decline of the index at Eastmain was to change its status from that of an independent factory to that of the trading district under Moose Factory.

These examples show how the accounting systems were used to monitor behavior and the flexibility of the committee in handling cases. The committee did not assume automatically that its managers were trying to defraud the company. The effectiveness of these monitoring and control systems improved over the eighteenth century, not just because the London Committee gained experience and improved their record keeping but because the committee tried to create an environment in which managers were less likely to cheat.

### *A Social System*

We argued earlier that if firms can create an ethical system to which the managers conform, the necessity for close monitoring will be lessened. In a family concern such a social system can be created by making family members partners and managers of the various plants.[61] Although the Hudson's Bay Company was not a family concern, the

[60] *London Correspondence Outward-Official*, Public Archives of Canada, Hudson's Bay Company MG20A6 (Albany, 1810).
[61] A very good history and analysis of such a family concern can be found in Douglas McCalla, *The Upper Canada Trade, 1834–1872: A Study of the Buchanans' Business* (Toronto, 1979).

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directors definitely tried to create a social system in which the managers and workers were made to feel part of a family. The attempt to create a "family environment" was particularly evident during the French wars when the committee wrote:

[A]nd for the better encouragement of your men in their Duty Wee doe hereby promise and assure you and them, that Wee will take Care by way of Pension for such of them as haveing behaved themselves with Courage and fidelity shalbe wounded and the Wives and Children of those whoe shall happen to bee killed in our Services . . . be Confident that noe brave action pformed in defence or recovery of any places or Factoryes shall passe ungratifyed.[62]

Indeed, all the correspondence is replete with positive encouragement to the men and managers, commenting on their work, commending them, and rewarding them with the large gratuities mentioned earlier.

A homogeneous social group was created when the London Committee's search for a labor force led to the hiring of Orcadians. As well as hiring suitable servants, the committee also tried to ensure that it would have suitable managers. The committee needed people who could manage the labor force and trade for furs and were sufficiently educated that they could keep the account books and post journals. The men who were promoted from the ranks were very often able traders but fell short on the other two counts. In fact, the committee took the trading ability of the men from the ranks as a base, believing that more suitable managers should be able to do better. To this end the committee started to indenture apprentices. In 1689 the company sent four apprentices from Christ's Hospital in London to Hudson Bay. These "Blue Coat Boys" were educated in writing and arithmetic and usually started in the company at the age of 14, although John Hindson, a "Parish boy" from Essex, is said to have started as young as eight. In the general letter of 1689 the committee described its view of these apprentices:

[T]hey all write faire haudes and Cast accompts, and being young will easily attaine the Lingua and bee trained up in our service and if you think such Ladds may bee useful in a few years to send up with the Indians wee have thoughts yearely or every other year to take the like or a greater number from the said Hospital.[63]

By the end of the eighteenth century it was from this group that many of the company's major officers, including Henry Kelsey and Richard Norton, regularly came. Indeed, recent work by Jennifer Brown confirmed that the company actively pursued a policy directed toward creating a set of shared values and apparently was successful in this.[64]

[62] Rich, ed., *Hudson's Bay Copy Booke*, vol. 20, p. 51.

[63] Ibid., p. 79; and Davies, ed., *Letters from Hudson Bay*, vol. 25, p. 76.

[64] Jennifer Brown, *Strangers in Blood: Fur Trade Company Families in Indian Country* (Vancouver, 1980).

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Not only did the Hudson's Bay Company actively try to create a managerial class with a set of shared values, it encouraged any complaints that its managers might have concerning the behavior of peers or supervisors. The company tried to create a moral code governing both private and work behavior and encouraged managers to report on each other. A recurring theme in the eighteenth-century correspondence was the number of men who were recalled to London to answer questions concerning their moral conduct or alleged private trade on the basis of complaints by other employees. Examples of this abound. In 1685, when Governor Sargeant accused James Knight, chief factor at Albany and deputy governor at the Bay, of private trade, Knight was called to London to answer the charges. Three years later Radisson accused Governor Geyer of the same and Geyer too was brought home to answer the charges. In the 1730s chief factor Macklish had to go to England to explain how he had trapped so many furs, and in 1745 chief factor Isham was called to London in regard to private trade and his general behavior.[65] In some cases the answers were found satisfactory and in others not. But the committee made it very clear that it was willing to listen before it acted.

A social system has positive and negative attributes. Insofar as managers perceived themselves to be part of a "family," opportunistic behavior was mitigated. Of course, such a system was open to abuse by managers when reporting meant that diligent managers would be called home and supervision would be more lax. However, the company often replaced recalled managers with personnel from other posts, providing the London Committee with an independent auditing of work practices at that post.

## CONCLUSION

The motivation behind this article came from the generalized statements found in the literature that one of the major problems facing chartered companies was that of private trade by their own managers. We have examined the issue of private trade for one of these chartered companies, the Hudson's Bay Company, which saw private trade as a serious problem and tried to eradicate it by employing a range of strategies to deal with the problem.

One device was the formal contract structure. High real wages and large gratuities paid by the company increased the opportunity cost of losing one's position because of private trade and so should have reduced the level of opportunism. The company also required that its managers take an oath swearing that they would not engage in private trade and reinforced these oaths by requiring that the managers post large bonds that would be lost if the person was found to have engaged in private trade. Again these strategies should have helped to reduce the level of opportunistic behavior.

[65] Rich, *The History of the Hudson's Bay Company*, vol. 1, pp. 182, 259, 543, 546.

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Nevertheless, high salaries, gratuities, bonds, and oaths need not have reduced the level of private trade if managers believed there existed little possibility of being caught and losing their salary.

A second approach was to monitor the activities of its managers. This was done through such straightforward monitoring devices as searching incoming and outgoing ships and the men's baggage for illicit trade goods or furs and reading men's letters for any information concerning possible private trade. Again such activity on the company's part should have reduced the level of private trade by managers. The company also monitored its managers' activities by putting into place a set of internal control mechanisms designed to account for the use of all trade goods sent to Hudson Bay. To this end the managers were required to follow rigorous standards in the maintenance of post records and in particular of all account books. Through these records the company could monitor the trading activity of individual managers, and, as we argued, devise indices based on the accounts to be used as monitoring devices. Such close scrutiny of managerial activity should have helped further to reduce the level of private trade.

Finally the company attempted to reduce the level of private trade by creating a social structure within the company, the mores of which dictated against such behavior. The Hudson's Bay Company tried to engender the view of the company as family and to create the existence of a set of shared values. Both the policy of hiring lower-level workers solely from the Orkney Islands and of apprenticing boys from Christ's College in London to form a future managerial class helped to create a "family" structure. The more successful was this policy, the less likely was private trade to occur.

The physical environment in which the company operated with its limited access and few contact points with the outside enhanced the likelihood that a strategy for controlling private trade would succeed. It is unlikely, however, that any strategy would have succeeded alone. More likely, success depended on the application of a judicious mixture of all the policies described earlier. The Hudson's Bay Company treated its managers well, especially by the standards of the time, and kept a watchful eye on what was happening in each of its posts, but did all of this in the context of a "caring" environment. The social structure which the company created was, we would argue, an integral part of its ability to attenuate opportunistic behavior by its managers. All of this suggests that the Hudson's Bay Company had succeeded in controlling private trade by the end of the eighteenth century. The company is still in operation today, suggesting that it was able to exert enough control over opportunistic behavior to remain viable. Survivorship gives a lower bound on success and in subsequent work we anticipate being able to provide a better quantitative assessment of those efforts.

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