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CONTROL, CONFLICT AND CONCESSION: CORPORATE GOVERNANCE, ACCOUNTING AND ACCOUNTABILITY AT BIRMINGHAM SMALL ARMS, 1906-1933

Abstract: This paper takes as its starting point the relevance of a historical perspective to the study of corporate governance. Corporate governance is concerned with the institutions that influence how business corporations allocate resources and returns, and with the exercise of accountability to investors and other stakeholders. The historical model adopted is that of personal capitalism which is informed by scholars such as Chandler, and in the British context, Quail. Birmingham Small Arms, a quoted and diversified engineering company, was selected for analysis because although it was relatively large and adopted a holding company format, it retained many of the characteristics of a personal capitalist firm. Our longitudinal study of 1906 to 1933 shows that what emerged at BSA was a dominant group of directors who were eventually impelled to concede change by a sustained shareholder critique and an altered legal and business environment.

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INTRODUCTION

Research on the historical evolution of corporate governance in the UK is still at an early stage [Toms and Wilson, 2003, pp.3-4]. While there is a growing literature on this topic [Keasey et al., 1997; Hopt et al., 1998; Cheffins, 2001; Toms and Wright, 2002] it is generally the case that such discussions are not informed by detailed empirical evidence.[1] There are, however, some exceptions. An appreciation of the significance of governance to industrial administration, within a French context, was demonstrated in 1916 by Henri Fayol [1949] though it has been argued that subsequent (English) writers blurred the distinction between management and governance [Tricker, 1984, p.280] and thus the subject remained obscure in the English speaking world of business. Writing in 1984, Tricker argued that in Britain interest in the issue of corporate governance appeared to be of recent origin: "In the past there seemed little challenge to management's prerogative to run the company unimpeded, no demand for independent supervision or disclosure, no intervention in matters of accountability, no questioning of corporate power and legitimacy, little interest in involvement or participation in management decisions" [1984, p.5]. More recently, Sheikh and Chatterjee have argued that despite corporate governance being a well recognized concept in Australia, New Zealand, the USA and some European countries, "it has received hardly any attention in the UK, primarily because of the traditional view maintained by the (corporate governance) system that directors are to maximise profits for their shareholders, as the interests of the latter are paramount to directors" [1995, p.1].

Maclean [1999] has suggested that business historians are well placed to contribute to the contemporary debate on corporate governance. The long-standing concerns of business historians implicitly if not explicitly pertain to such issues. Indeed, issues such as board selection, board performance, family control, shareholder maneuvering, and the influence and regenerative potential of business elites, are all topics which might profit from systematic, closely documented, historical enquiry. Yet, Maclean argues, few of the voluminous company histories one might consult in expectation take up such themes. Nor are the pages of business/accountancy history journals replete with articles which inform the heated debate on corporate governance

[1] See, however the work of Quail [2000].

currently raging across the world [Maclean, 1999, p.109]. An important exception has been the work of John Quail who has argued that in the British case the "separate roles and prerogatives of the directors . . . led to a fixity of structure" which acted to limit the evolution of "managerial hierarchies beyond the departmental or functional level" and also restricted the growth of firms "beyond a certain size or complexity of operation" [Quail, 2000, p.2]. While there has been some recent response to this call for further research, as O'Sullivan has argued, "more empirical research is required to understand the institutions of corporate governance as they have emerged in different countries and as they have evolved and continue to change over time" [2000, p. 295]. Further, O'Sullivan argues that in the literature on corporate governance, the treatment of these issues has been too superficial, partly because much of the empirical analysis of systems of corporate governance has not been sufficiently historical or comparative. A central aim of this paper is to begin to address this shortcoming by reporting the results of an historical investigation of the governance system of an important, internationally recognized British engineering firm, Birmingham Small Arms.

DEFINING CORPORATE GOVERNANCE: THEORY AND METHODOLOGY

The empirical work of accounting and business historians is not conducted in a vacuum, and the approach in this paper is informed by a theoretical framework that is embedded in the institutional arrangements of corporate governance. Corporate governance is taken to mean a concern "with the institutions that influence how business corporations allocate resources and returns. Specifically a system of corporate governance shapes who makes investment decisions in a corporation, what type of decision they make, and how returns from investments are distributed" [O'Sullivan, 2000, p.1]. In addition corporate governance is concerned with the form, extent and quality of disclosure of 'relevant' business and financial information and the means by which directors project, articulate and justify the corporation's role as a socio-business organization. Defined in this way corporate governance is facilitated by the establishment of a system whereby directors are entrusted with responsibilities and duties in relation to the stewardship of a company's affairs. Based on a system of accountability an effective corporate governance system should provide mechanisms for regulating directors' duties in order to restrain them from abusing their powers and to ensure that they act in the best interests of the company in its broadest sense [Sheikh and Chatterjee, 1995, p.5].

Three important principles follow from the above discussion. Firstly, there is a need to distinguish between the 'management' of the company and its 'governance', whereby the latter "is not concerned with running the business of the company per se, but with the directors giving overall direction to the enterprise, overseeing and controlling the executive actions of management, and satisfying legitimate expectations for accountability and regulation by interests beyond the corporate boundary" [Sheikh and Chatterjee, 1995, p.6]. Secondly, this approach to corporate governance allows considerable scope for an extensive empirical study because it facilitates an analysis of actual governance systems and institutions. In the specific British context, the historical evolution of corporate governance is closely related to the institutional arrangements of personal capitalism. In the literature there is an important distinction between personal and managerial capitalism [see Gourvish, 1987; Chandler, 1990; Church, 1990, 1993, 1995; Supple, 1991; Lloyd-Jones and Lewis, 1994, 2000, 2003; Wilson, 1995; Quail, 2000]. Both these different styles of capitalism represent forms of control over companies and are clearly linked to the issue of corporate governance.

The business historian, closely associated with the notion of personal capitalism is A.D. Chandler jnr, who has asserted that the persistence with personal forms of control shaped the governance of British manufacturing companies into the second half of the 20th century [see Toms and Wilson, 2003, p.3]. Despite the growing challenge to Chandler's work [see Teece, 1993, pp.199-225; Wilson, 1995; John, 1997, pp.151-200] it remains the dominant paradigm [Toms and Wilson, 2003, p.3] and the notion of personal capitalism is a useful means of trying to understand the evolution of British business organization in the 20th century.

Thirdly, while the analysis of personal capitalist firms recognizes the importance of the development of common patterns of governance, such an approach necessarily places considerable emphasis on the idiosyncratic behavior of firms. It is because firms are not simply a set of transactions but can (and clearly do) build organizational capabilities not available on the market ('the way we do things here'!) [see Langlois and Robertson, 1995, ch.1] that they are idiosyncratic and consequently lend themselves to the case study approach that remains one of the key methodological frameworks of accounting/business history. This method of enquiry is also consistent with the specific historical trajectory of business development. For example, as Easterbrook and Fisher have pointed out, the permissiveness of British company law in the first half of the 20th century means that the firm can be seen as "a complex set of explicit and implicit contracts" [quoted in Monks and Minow, 2001, p. 89]. This requires a historical case study of corporate governance to look at the specific behavior and relationships of the different parties — directors, shareholders, finance providers, auditors — to the contract and raises the notion of "strategic position", which is concerned with who has the power to make the key decisions within a company [Herman, 1981, p.19]. It is also related to Nelson's proposition that what business organizations "can do well has something of a life of its own" and this applies as much to the firm's governance system as it does to its other core capabilities across the range of its business activities [1996, p.111]. In the following analysis, a wide definition of governance has been adopted which enables engagement with the broader literature as well as the detailed empirical evidence at the level of a firm.

THE CHOICE OF BSA AS A CASE STUDY

The case study explores the exercise of control and the management of conflict and concessions in an engineering company. BSA was selected for four main reasons. Firstly, BSA was a long established company. It was founded in 1861 and by the beginning of the 20th century it had gained a national reputation for the quality of its products. Secondly, it was a large company, securing a place in Britain's 100 largest manufacturing firms throughout the period under study [see Johnson, 1990, pp. 20-39; Shaw, 1990, pp. 11-12]. Thirdly, BSA was an innovative firm; it produced a range of engineering products some of which, for their time, were at the leading edge of technological development (e.g. bicycles, motor cycles and motor cars). Fourthly, and more importantly because it is directly related to corporate governance, the composition of the BSA board 1906-1933 showed different groups exercising control through what Herman has referred to as "strategic position" [1981, pp. 26-28]. That is, their status within the board gave them an authority and dominance over the types of strategic decisions that were outlined by O'Sullivan above. In particular a dominant group emerged following the company's merger with Daimler in 1910 and maintained control within the generic form of personal capitalism for the next 20 years.

The case study examines three episodes that focus on the struggle for control at BSA. The first is essentially concerned with an insider/outsider conflict between directors and shareholders, which was partially resolved by court action in 1906. The second examines the change in board composition and the consequence for the company's governance brought by BSA's merger with Daimler in 1910. The third explores a protracted dispute which extended over the 1920s and into the early 1930s between the board and shareholder dissidents, two of whom were ex-directors. The latter dispute only ended when reforms of the company's governance were apparently conceded, and there was a change in the occupants of "strategic position" at BSA when the firm experienced the leadership of four different chairmen between 1928 and 1933.

SHAREHOLDER/DIRECTOR CONFLICT: NEWTON V BSA

The *Newton v Birmingham Small Arms* court case heard in 1906 attracted wide contemporary comment in the financial press and continues to feature as a landmark. It was recognized immediately as an important decision: *The Accountant* commented that "It is some years since a legal decision has been delivered of such far-reaching importance to the profession" [14 July 1906]. Two aspects of the case are of relevance to the present paper: firstly, as an indication of the relationship between BSA directors and shareholders, and secondly, as a precedent for financial reporting, and hence for corporate governance in Great Britain for the next quarter-century. We argue that the use of secret reserves was intended to extend directors' control over BSA's assets by preventing shareholders from monitoring the annual performance of the company. It was also a portent of the increasing influence of Dudley Docker, who was to be involved in a subsequent major episode, the merger of BSA and Daimler.

The Court Case: At extraordinary meetings of the BSA shareholders in early 1906, the directors had passed a special resolution to allow them to create an "internal reserve fund" out of profits, which they could use for any purpose they thought fit. Transfers into the fund might be made in any year in which the company had paid a dividend of at least 10% on the ordinary shares and had paid all preference dividends. The auditors were to be informed of this fund and any transfers to or from it, but they were not to be permitted to disclose information about it to the shareholders, and it was not to be disclosed separately in the balance sheet. The result would be the creation of a fund about which the shareholders were not entitled to be informed.

In June 1906, Sir Alfred Newton, a shareholder, applied for an injunction to prevent the directors from implementing this resolution. He argued that the directors were acting *ultra vires*, exceeding their powers under company law and taking away the right of shareholders to knowledge of "the true position of the company" [Law Report 2 Chancery, 382, 1906]. He succeeded in his challenge, but only on the grounds that the directors might not prevent the auditors from making disclosures to shareholders. Buckley, the presiding judge, endorsed the acceptability of internal or secret reserves. The creation of such reserves had the effect of producing a balance sheet that would "shew the financial position . . . to be not as good as it in fact is. . . . (S)uch a balance-sheet will not, in my judgement, be necessarily inconsistent with the Act of Parliament" (the Companies Act, 1900) [Law Report 2 Chancery, 387, 1906]. Buckley made the assertion, which has frequently been quoted since, that "The purpose of the balance-sheet is primarily to shew that the financial position is at least as good as there stated, not to show that it is not or may not be better" [Law Report 2 Chancery, 387, 1906]. Company law protected audit, but it did not impose detailed disclosure obligations; it was up to shareholders and directors to agree the terms of the contract between them as it affected financial reporting.

Shareholders' Resistance and Directors' Victory: The directors of BSA promptly responded by calling another extraordinary general meeting to pass an altered resolution, identical to the previous one except that it did not place any restriction on the auditors' freedom to communicate with shareholders where it was their duty to do so under the Companies Act 1900. Newton and a number of his fellow-shareholders did their best to rally opposition, by letters to *The Times*, circulars to shareholders and their behavior at meetings during the year following the court case. At the meeting on 16 July 1906 to revise the special resolution, the directors' motion was defeated on a show of hands by 36 votes to 27. The majority of dissenting voters then walked out of the meeting; following which the directors resorted to a poll, according to shares held rather than show of hands. The directors had the support of the majority of the shares polled. They won by 27,983 to 95 [*The Times*, 17 July 1906].

The dissenters circularized all BSA shareholders the following week to warn them that the new resolution "will be injurious to the shareholders by keeping them in ignorance of the position of affairs" [*The Times*, 23 July 1906]. They proposed an amendment which would allow an inner reserve to be created "whenever a dividend of not less than 17½% is recommended to be paid" [*The Times*, 25 July 1906] in contrast to the 10% of the original resolution. There was "a long and heated discussion" at the meeting held on 31 July to confirm the new resolution, but the directors prevailed, by 79 votes to 42, having received 33,000 proxies in favor of the resolution and 9,000 against [*The Times*, 2 August 1906]. Newton attempted to revive the issue at BSA's annual general meeting in October, but "he was interrupted by a number of shareholders and a motion was passed that he be not heard on the subject" [*The Times*, 2 October 1906]. "Several shareholders" asked for information about the internal reserve, and were told by the chairman, Hallewell Rogers that the directors need not disclose it. *The Times* [2 October 1906] recorded "Applause and cries of 'shame'" at this, but the inner reserve was maintained in 1907 and 1908. In 1909, however, the chairman reported in the financial statements that "the Internal Reserve, amounting to £30,000, has been included with the General Reserve Fund". The directors had ceased to take advantage of the special resolution. *The Statist* [1 October 1910, p.772] noted that the secret reserve "has now received its quietus".

Although the secret reserve was short-lived, the case and its aftermath throw light on the governance of the company, and in particular on two conflicts between directors and shareholders which both reappeared more markedly in the interwar period. These were the dissatisfaction of TS Walker, leading to his resignation from the board in 1921, and the much more protracted campaign led by EM Griffiths in the 1920s and early 1930s after he left the board, and which was reinforced by complaints from numerous shareholders. We now outline the issues which, we argue, underlay these later conflicts.

Accounting Disclosure, Investors and "Speculators": The arguments put forward by both sides in *Newton v BSA* were not new. The case for accounting disclosure had always been the need for interested parties to be aware of the likely risk and return. With respect to shareholders, the counter-argument was that limited companies were potentially at the mercy of short-termists, 'speculators', who bought shares solely with a view to extracting a large dividend and then selling the shares in the depleted company. Prudent investors, by contrast, were prepared to invest for a long period, and to trust the directors' judgment. They did not require comprehensive published disclosure; if they wanted more information they would ask the directors for it. Buckley was aligning himself with this dichotomy, when he invoked the idea of prudence in support of understatement, in the opinion of which part was quoted earlier: "Assets are often, by reason of prudence, estimated, and stated to be estimated, at less than their probably real value" [Law Report 2 Chancery, 387, 1906].

Newton does not, however, appear on closer examination to have been a short-term investor, given the small size of his holding (40 shares, unlikely to yield a large short-term profit) and the pains that he took: he brought a court case, spoke at a series of meetings, circularized shareholders and made a final unsuccessful intervention at the 1906 annual general meeting. Nor was his supporter, Arthur Chamberlain, a speculator. He was a knowledgeable investor, part of a major West Midlands industrial and finance dynasty. His uncle, Herbert Chamberlain, had been BSA's Chairman from 1900 to 1904, and his cousin Neville Chamberlain was a director of BSA between 1913 and 1922. Arthur Chamberlain's reasons for opposing secret reserves were reported in *The Times* on 2 August 1906. He stated that "he did not know any limited company in which the circumstances were the same. The Small Arms Company had no private reserves for ten years, and nothing could be more satisfactory than the condition of the company during the first seven of the ten years. They had a 20% dividend. Then they came to the change of the board, and had three years of falling dividend. He found that to be coincident with the change in the membership of the board". Chamberlain was accusing the board of bringing in a secret reserve to hide their failings; in a good year, profits could be hidden to be paid out in a bad one, and shareholders had no way of monitoring the directors' actual success or failure.

The Directors' Defense: Rogers' case for the new policy on secret reserves was based on two arguments. One was a detailed defense of the profit performance of the current board (see Table 1).

He pointed out that average annual profits 1903-1905 were higher than those achieved 1896-1900 (leaving out the period of the Boer War) – £63,158 compared with £60,311 [*The Times*, 27 July 1906]. His other argument was that the creation of secret reserves was part of normal practice by respectable businesses.

TABLE 1

BSA Profits and Dividends, 1897-1909

BSA Profit	*£000*	Dividend rate
1897	88	20
1898	60	20
1899	56	20
1900	58	20
1901	88	20
1902	95	20
1903	65	15
1904	51	12½
1905	81	15
1906	74	15
1907	80	15
1908	99	15
1909	84	10

Source: *The Statist*, 1 October 1910, p.773

This was an important claim; it was made as early as February 1906 when the original resolution was tabled. A press notice by BSA pointed out that the reserve was "similar to those which are possessed by several of the leading commercial companies" [*The Times*, 22 February 1906]. Similarly, Carter, BSA's auditor, had asserted that several other companies which he had audited had used similar powers "in every case . . . to the advantage of the companies and their shareholders" [*The Times*, 2 August 1906].

BSA's Motives for Non-disclosure: One reason for the creation of secret reserves was the discretion they gave directors in disclosing performance: while useful because they could be used to prevent short-termists from bleeding the company dry, more importantly, as Chamberlain suggested, they allowed smoothing of income. This could help to ward off any expectation for higher dividends in good years, as well as depriving employees of a basis to demand wage increases. Moreover, the less shareholders knew about performance, the less scope there was for them to attack directors in bad years and hence the stronger the directors' positions. In addition, secret reserves could help with an acquisition. They meant that a potential buyer's means were not evident to the selling company, with implications for the price agreed, and they allowed the acquirer to move fast when a suitable target appeared, provided that the reserves had been invested in suitably liquid assets. BSA created the reserve a year before it acquired the Eadie Cycle Company, and ceased to use it just before its acquisition of Daimler. This would fit with the theory that the reserve was created as a means of funding diversification. With the purchase of Daimler, BSA's thirst for acquisition was temporarily assuaged: no more subsidiaries were acquired till 1919.

On this interpretation, the creation of a secret reserve at BSA was less an act of prudence than a means of empowering the directors, both to ward off criticism and to fund projects without attracting scrutiny from shareholders. This problem was not confined to BSA. Edwards [1989, p.148] comments that: "The case, which has since been described as the 'charter for the creators of secret reserves' . . . was partly responsible for secrecy, obscurity, excessive summarization and distortion becoming common features of financial reporting for the next quarter of a century". The clash at BSA in 1906 is indicative of the range of views held by shareholders. Newton and Chamberlain represented a group that took a close interest in the performance of the business and sought information in order to monitor what was going on, thus their aversion to secrecy. They were defeated by the votes of other shareholders who were prepared to tolerate secrecy provided the directors generated an adequate return on their investment. The outcome of the 1906 controversy was support for a secretive mode of governance that went without serious challenge until after the First World War. This mode of governance was typical of F.D. Docker, who used secret reserves as a means of saving for acquisitions. He was a member of the BSA board and was to become very influential in the next major episode in the development of governance at BSA.

THE CHANGING COMPOSITION OF THE BOARD: THE BSA-DAIMLER MERGER

The secret reserve episode suggests that the BSA board acted largely as a self perpetuating oligarchy, to the extent that it took decisions which primarily satisfied itself. If shareholders were dissatisfied, the board was prepared to resist them, even if this involved protracted and acrimonious dispute.[2] The secret reserve was discontinued in 1910, we would argue, not because it annoyed some shareholders, but because it was no longer needed to fund acquisitions. As the abandonment of the secret reserve policy occurred at the same juncture as the Daimler

[2] For the role of boards see Keasey et al. [1997, p.7].

merger, it is of interest to explore the strategic issues and motives underlying the merger and consider the consequences for the company's corporate governance.

Four broad conclusions may be drawn from BSA's merger with Daimler in 1910. Firstly, the merger was of key strategic importance and had significant consequences for the structure of power at the top levels of governance at BSA. Secondly, the key decisions relating to the merger were made by a dominant insider coalition, largely under the influence of Docker.[3] Thirdly, the aftermath of the merger was a shift in the locus of power in the company and "strategic position" was assumed by a triumvirate (of Rogers, Manville and Martin) who were responsible (as outlined earlier in O'Sullivan's definition of corporate governance) for the post-war strategic direction of BSA and who owed their allegiance to Docker. Fourthly, the shift in "strategic position" at BSA is indicative of the flexibility of personal capitalism as an organizational form but it is also suggestive that personal capitalism offers no guarantee of a cozy or tranquil system of governance as the dominant coalition were, subsequently, to confront a sustained challenge to their authority.[4] The following sub-sections draw on the historical evidence to explore the merger and its consequences for corporate governance at BSA.

"Strategic Position" and the Context of the Merger: 1906 was a decisive year for BSA, Sir Hallewell Rogers became Chairman and Docker joined the board. Rogers was a well established Birmingham businessman and a former Lord Mayor of the city. He had joined the BSA board in 1904 and was rapidly elevated to the chairmanship. Rogers brought to the company an expertise in finance (and no doubt was familiar with secret reserves), having been a director of the Birmingham and District Banking Company [see Davenport-Hines, 1984, p.48; 1985, pp.109-112], and it was under his leadership that BSA embarked on a determined diversification strategy. Rogers was a personal friend of Docker [see *Midland Advertiser*, 29 October 1911], and according to Sir Patrick Hannon, who was to become a BSA director and a Tory Member of Parliament, Docker "was responsible for making him chairman of BSA" [Davenport-Hines, 1985, pp.109-112].

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[3] For an exploration of the concept of the insider coalition see Herman [1981, p. 20]; Davenport-Hines [1984].

[4] For another example of challenge to personal capitalist authority see Lloyd-Jones and Lewis [2000].

Docker was a high profile business leader, not only in the Midland industrial district but also at national level. For example, he was instrumental in setting up the Federation of British Industry in 1916. Docker was also active in the National Union of Manufacturers [see Marrison, 1996, pp.326-327]. His prestige had risen sharply following the creation of the Metropolitan Carriage Wagon and Finance Company (MCWF) in 1902, a combination of five railway carriage manufacturers. Docker and the Metropolitan directors had powers to create secret reserves and by 1910 they had built up a balance of £450,000. According to Davenport-Hines [1984] such was Docker's reputation for "business infallibility" that "his expertise was sought by other businesses". He joined the board of several companies who hoped to benefit from his "general business judgement" and in other cases he was invited to play a leading role in "arranging mergers" [Davenport-Hines, 1984, pp. 32, 35, 47]. There was clearly a close personal connection between Docker and Rogers. Both were embedded in business and political networks. For example, Rogers was active in the right-wing pressure group the British Commonwealth Union, a group of which Docker happened to be President, [see Davenport-Hines, 1985, pp. 109-112; Marrison, 1996, pp. 346, 353], and what emerged at BSA from 1906 was a strong Docker-Rogers axis. Their "strategic position" at the company was further reinforced in 1907 when Lincoln Chandler, a co-director of Docker's at MCWF, joined the BSA board. Why did this powerful coalition, enjoying "strategic position", initiate the merger with Daimler?

The Merger: In 1906 BSA purchased a former Royal Small Arms Factory at Sparkbrook in Birmingham and used the facilities to enter the new and expanding motor car industry [see Church, 1995, p. 3; Saul, 1962, Thoms and Donnelly, 2002]. The decision to diversify into motor manufacture mirrored similar decisions made by other cycle firms such as Riley, Humber, Allard, Swift, Lee Francis and Singer [Lloyd-Jones and Lewis, 2000, p.40]. By 1908 BSA had developed three models but these proved not to be a business success [Nixon, n.d., p.132], and by 1909 the condition of the motor department was deteriorating sharply. In the following year a damaging internal report on the motor department's organization and performance was submitted to the board. It charged that there had been no effective cost control, the general manager had proved incapable of effective organization and had "presided over anarchy...in design, production and after sales" [Davenport-Hines, 1984, p.50; Modern Record Centre, Warwick, (hereafter MRC) Mss 19A/1/2/16-17]. Clearly the dominant coalition at BSA feared that the company's reputation could be seriously damaged. Docker took action to solve the problem of the ailing motor department by arranging a merger with Daimler. Three factors underpinned Docker's strategy. Firstly, buying in Daimler's core capabilities would act to prop-up BSA's motor car venture. Secondly, the merger appealed to Docker's penchant for financial deals and allowed him to exploit the extensive business networks he had established in the Midlands. Thirdly, Docker was impressed by Daimler's financial strength. *The Statist*, for example, sang Daimler's praises in 1906, calling attention to the company's "conservative financial management" [3 November 1906].

The merger caught the attention of the financial press. Daimler was one of Britain's largest car producers [Davenport-Hines, 1984, p.50] and *The Financial Times* commented that "the combination is one of the most important ever effected in the motor industry" [27 September 1910]. The merger was facilitated by the fact that Docker had close business, personal and political links with a number of the top management at Daimler, including its Chairman (Manville), its Managing Director (Percy Martin) and a director (George Flett). Manville had a number of business connections with Docker. Both became directors of the Metropolitan Railway and "were political adherents during the war period (1914-18) when Docker was President of the FBI and Manville led the Association of British Chambers of Commerce" [Davenport-Hines, 1984, p.51]. When Manville was elected Member of Parliament for Coventry in 1918 he received financial support from Docker's British Commonwealth Union. Marrison [1996, pp. 369-370] refers to Manville in the 1920s as "being in a close orbit to Docker". There seems little doubt that Docker coveted Daimler's expertise and financial strength and his knowledge of that company's affairs was also reinforced by the fact that George Flett, a Daimler director, also sat on the board of Docker's MCWF.[5]

The Consequence of Merger and Corporate Governance at BSA: The BSA-Daimler merger was not without controversy. Davenport-Hines has described it as an "over-tortuous scheme of

[5] For Daimler's financial performance see Davenport-Hines [1984, p.51]; *The Financial Times* [2 September 1910]; Nixon [n.d. pp. 28-29]; *The Statist* [1 October 1910, pp. 772-774].

indebtedness, leading to over-capitalisation" [1984, p. 52]. Docker insisted that Daimler should pay BSA a dividend of £100,000 per year and there is little doubt that this seriously weakened Daimler by leaving it short of funds to develop its motor vehicle and engine capabilities. This begs the question: why did Daimler's directors agree to such a deal? This was all the more surprising given that their close business networks with Docker would have meant they would have been aware of his financial deal making. In effect a trade-off was made between the financial details of the merger and a major change in the governance of the new amalgamation, which brought a fundamental restructuring of the BSA main board. The ol' BSA directors were culled and a leaner board, mainly consisting of Docker acolytes, assumed a "strategic position" at the company. The main board was reduced from 11 to seven (four former BSA and three former Daimler directors) post merger (see Table 2).

TABLE 2

Key Players in Three Episodes

Newton v BSA 1906:
Sir A. Newton, shareholder.
Arthur Chamberlain, shareholder, nephew of Herbert Chamberlain former Chairman of BSA.
A. N. Chamberlain, Director on the BSA board, 1900-04, 1912-16 and 1918-22.
Hallewell Rogers, Chairman BSA.
F. D. Docker, Director 1906.

Daimler Merger 1910:
F.D. Docker, Director.
Hallewell Rogers, Chairman BSA.
E. Manville, Chairman Daimler, becomes Deputy Chairman BSA.
P. Martin, Managing Director Daimler, becomes Managing Director BSA.

E. M. Griffiths' criticisms, 1920-32:
T.S. Walker, Director BSA.
E.M. Griffiths, joined BSA board on acquisition of Burton, Griffiths, 1919.
A. Eadie, Director BSA.
A. N. Chamberlain, Chairman BSA Cycles to 1922.
P. Martin, Managing Director BSA.
Hallewell Rogers, Chairman BSA to 1928.
A.H. Pollen, briefly Chairman in 1932. A. Roger, Chairman from 1933.

Hallewell Rogers, Lincoln Chandler, Edward Manville and Percy Martin with Docker at the centre formed the dominant coalition. The other two directors were A.H.E. Wood, a major shareholder, and A. Eadie, who was a carry-over from the 1906 acquisition and reflected the importance of bicycles to company profits. No doubt Flett would have joined the board but he had been killed in 1910 as the result of crashing his Daimler after leaving a MCWF board meeting [Davenport-Hines, 1984, pp. 50-51].

The post-merger board was very much a Docker and Daimler affair, with the incoming directors effectively gaining strategic control of decision making at BSA as Martin became Managing Director, and Manville Deputy Chair. These two men, alongside Docker and Rogers played the dominant role in that they determined strategy and structure at the company and shaped its investment decisions. The terms of the merger deal also consolidated ownership and control at BSA, and it retained the form of a personal capitalist organization. Martin and Wood, who were two of the largest shareholders at Daimler at the time of the merger, became substantial shareholders in the re-constituted BSA [*The Statist,* 1 October 1910, pp. 772-774]. Though the holdings of the new board were not substantial enough to guarantee outright ownership, it nevertheless allowed the members of the dominant coalition, when it suited them, to argue that they were strongly identified, as a personal capitalist firm, with the interests of the company's shareholders. As Quail has pointed out, "the theoretical justification for the larger powers of . . . directors remained their role as a group of proprietors standing for the proprietors as a whole" [2000, p.3].

Docker left the board of BSA in 1912, but he did not necessarily forgo his influence on the governance of the company. He remained active behind the scenes, attended the annual meeting in 1922, reappearing as a director in 1940, and apparently orchestrating the four changes in BSA's chairmanship between 1928 and 1933 [see Davenport-Hines, 1984]. It is clear that from 1912, governance at BSA remained under the control of Rogers, Manville and Martin, and it was this triumvirate who faced and managed confrontations with a determined, knowledgeable and sustained shareholder group. This conflict is explored in the next section.

THE BOARD AND DISSIDENT DIRECTORS

In the interwar period, BSA went through two separate but related episodes of conflict between directors and shareholders. The following section of the paper considers the reactions of two dissident 'insider' investors to its poor interwar performance. We first consider T.S. Walker, who was highly critical of BSA in the early 1920s, and then E.M. Griffiths, whose relationship with the company, as a director and then a shareholder, continued until the mid-1930s. Both raised similar concerns, but Griffiths did so more persistently and vocally. The two episodes, we argue, reveal growing criticisms of the company's governance structure. These were motivated partly by its performance in the difficult interwar period, and partly by a changing set of expectations among investors. New pressures required BSA to react in new ways, and senior management had some difficulty in responding appropriately, as the very stable structure inherited from Daimler and confirmed after 1919 rendered it difficult to adapt rapidly to change.

Changes to the Group of Companies: After the end of the First World War, BSA's stated policy was that they would, in Rogers' words, "make the smallest possible range of products on the largest possible scale" [*The Economist,* 29 April 1922]. However, over the following decade the company proceeded to make acquisitions in a diverse range of industries, as summarized in Table 3.

TABLE 3

Timeline of Events at BSA, 1861-1934

1861	Company formed.
1873	Becomes private limited company.
1896	Becomes quoted limited liability company.
1906	Acquires Royal Small Arms Factory at Sparkbrook.
	F.D. Docker joins board.
	Hallewell Rogers becomes Chairman.
1906/7	Merger with Eadie Manufacturing Company, producers of bicycle components, bicycles and motor cycles.
1910	Merger with Daimler (1904) Ltd.Major board changes occur.
1918	Purchase of shares in British Abrasive Wheel.
1919	Adoption of the holding company form, BSA Cycle, Rifle and Tool departments formed into subsidiary companies.
	Three new acquisitions to the holding company made in 1919: 1) William Jessop & Co., 2) J.J. Saville & Co., both Sheffield specialist steel producers, and 3) Burton, Griffiths and Co., London machine tool merchants.
1920	Acquisition of Aircraft Manufacturing Co. and Peter Hooker Ltd (engine manufacturer).
	E.M. Griffiths' criticisms begin.
1923	Aircraft Manufacturing Co and Peter Hooker Ltd liquidated.
1928	E. Manville becomes Chairman.
1929	Arthur Andrews Ltd, machine tools merchants acquired.
1931	Lanchester Motor Co. acquired.Daimler Hire sold.
1932	In July A.H. Pollen replaces Manville as Chairman.
	In December, Sir Alexander Roger replaces Pollen.
1934	British Abrasive Wheel sold.

BSA's performance was very troubled, for a variety of reasons. One of these, clearly, was the series of economic crises of the 1920s and 1930s, affecting both industrial and consumer demand [see Buxton and Aldcroft, 1979; Glynn and Booth, 1996; Pollard, 1983]. Until the rearmament drive of the late 1930s, BSA Guns was very short of work. Demand for cars, particularly at the top end of the range, was low. In addition, the post-1919 acquisitions generated disappointing returns and also absorbed funds that might have been more profitably used elsewhere. The Sheffield steelmakers, J.J. Saville & Company and William Jessop & Company, had been acquired in the expectation that they would be intensively used in post-war reconstruction, but they did not produce the hoped-for return. The Peter Hooker Ltd and Aircraft Manufacturing Company acquisitions very rapidly proved mistakes and had to be put into liquidation within 18 months of joining the group. The Lanchester Motor Company was purchased in 1931 as a means of acquiring "a name as old as Daimler and . . . a market for high price cars" [Coventry Record Office (hereafter CRO) PA 594/4/6/2, Lanchester takeover file, letter dated 26 February 1931]. Unfortunately, the market for such cars in 1931 was not healthy, and Lanchester's contribution to the group's profitability was disappointing.

The result of poor investment decisions by BSA in relation to these acquisitions was low profitability, and the reduction or disappearance of dividends. Table 4 sets out the company's performance 1910-1939 and highlights in particular the frequent absence of the ordinary dividend, which was paid out only six times between 1920 and 1939. Table 5 gives the quoted price of the £1 ordinary share from 1918 onwards. The most striking features of this are the very rapid fall in share price in the aftermath of the War, and the fact that it remained far below par for most of the inter-war period. Ordinary shareholders who had bought before 1920 found themselves saddled with shares on which they were bound to make a loss on disposal, and which did not generate a satisfactory return. Their dissatisfaction was to be reflected in the annual general meetings of the 1930s, which are discussed below.

Management Structure: There was also a continuing and serious problem of management, at board level and below, which resulted not only in the poor investment decisions made but in muddled internal management of operations. In 1919 Hallewell Rogers had claimed that the new companies would have "separate detailed management" [CRO PA 594/1/12/3 chairman's

TABLE 4

BSA Profits and Dividends, 1910-1939

Year	BSA Profit (Loss) £000	Ordinary £000	Preference £000
1910	98	77	10
1911*	233	114	10
1912	178	114	10
1913	188	114	10
1914	190	119	10
1915	408	169	10
1916	382	231	22
1917	428	230	22
1918	435	161	22
1919 (31 July)	373	232	22
1921 (18 months to 31 Jan)	567	151	22
1922	(469)	—	21
1923	(167)	—	23
1924	125	—	24
1925	179	109	24
1926	185	134	24
1927	112	—	12
1928	72	—	24
1929	90	—	24
1930	148	106	24
1931	(204)	—	24
1932	(798)	—	—
1933	245	—	—
1934	128	—	—
1935	112	—	—
1936	171	—	39
1937	398	—	102
1938	431	204	22
1939	411	109	21

* including Daimler from 1911.

Source: Coventry Record Office, PA 594, BSA Financial Statements, 1910-1939.

TABLE 5

BSA Quoted Share Price, 1918-1939

Year	Share price	Capitalization (£000)
1918	59s 6d	3428
1919	35s	4159
1920	27s 7 d	3801
1921	12s 2d	1689
1922	7s 9d	986
1923	11s 9d	1689
1924	10s	1408
1925	14s	1971
1926	15s 9d	2252
1927	13s 9d	1943
1928	11s 4d	1548
1929	7s 6d	1056
1930	9s 6d	1379
1931	7s 6d	1056
1932	6s 3d	844
1933	5s 7d	732
1934	14s 6d	2027
1935	8s 9d	1239
1936	12s 3d	1689
1937	27s	3800
1938	19s 3d	2674
1939	25s 7d	3519

Source: *The Times,* various issues.

Note: BSA had a quotation on the London Stock Exchange from 1918 onwards. The figures here are the share price on the last trading day of March for each year, and the market capitalization of the ordinary share capital.

speech 1919]. But the resulting structure suffered from a permanent tension between the notion of separate management and apparent unwillingness to devolve power from the main board to the boards of the subsidiaries. Church [1990, p.710] describes the experience of BSA from 1918 to 1940 as one of irrelevant structural reorganizations and reshuffling of top managers under a board of directors that was mediocre despite its rapid turnover of personnel (BSA had four chairmen in the five years ending in 1932). The one fixed point was the triumvirate of Hallewell Rogers, Manville and Martin which was in place until

1932. There was continuing tension between engineers and finance/marketing management [Davenport-Hines, 1984, p.229] and a lack of co-ordination between the different subsidiaries.

T.S. Walker: Walker became a director of BSA in 1919, following the death of his father, T.F. Walker, who had served as a director for 32 years and who was Chairman 1904-06. T.S. Walker resigned from the board in December 1921. The main reason for his departure was his unhappiness with the company's performance, on three grounds, which he set out in a letter to Hallewell Rogers [CRO PA 594/2/1/59, 15 December 1921]. He was critical of "excessive expenditure" on salaries and on capital items, of staff selection policy, and most importantly, of BSA's governance structure. He wrote at the time of his resignation that his views were "fundamentally opposed to Mr Martin's schemes" in this respect ("Mr Martin" here represents the ruling group of directors).

The post-1919 structure put Manville and Martin on every subsidiary board, and Eadie and Pollen were each on two subsidiaries. There was a danger that the structure would be so centralized that the subsidiaries could not apply local knowledge and act autonomously to their own advantage. This danger was increased by the retention of financial control by the parent board. The subsidiaries were required to report upwards and be subject to main board decisions "on matters of importance and policy", and they leased their fixed assets from the parent [CRO PA594/1/1/3/58, 30 November 1928]. According to Walker, the new structure resulted in over-centralization so that senior staff at the parent company were responsible for "multifarious duties" at the subsidiaries as well. Each subsidiary should, he argued, be controlled by a managing director who was "a man of wide experience in the particular trade" and who would "give the whole of his time to the business" [CRO PA 594/2/1/59, 15 December 1921].

BSA's Response: Martin's response to Walker's criticisms was dismissive. He justified the level of expenditure; it was important not to destroy the organization at a time of "shrinkage in the market", whilst recruitment had been "on the whole extremely successful" [CRO PA 594/2/1/59, 29 December 1921]. Martin recognized that BSA's structure was the "chief fundamental difference" between Walker and himself [CRO PA 594/2/1/59, 29 December 1921]. He objected that Walker's proposal of devolving management would be unduly expensive, leading to "numerous and extravagant appointments" [CRO PA 594/2/1/59, 29 December 1921]. Martin asserted that the present structure allowed "a very efficient form of team work" [CRO PA 594/2/1/59, 29 December 1921]. His overall theme was that a large and centralized organization was crucial to BSA's success and survival: Walker's scheme of devolved authority would destroy it.

Developments after 1921 suggest that neither side in the dispute had quite understood the situation. Walker's characterization of the group as over-centralized and Martin's praise of "team work" were not borne out by the levels of intra-group trading actually achieved. A memorandum by the parent board commented that the relationship between BSA Tools and Burton Griffiths "was that of two self-contained companies . . . acting independently" [CRO PA 594/1/1/3/3, 29 February 1924]. *The Economist* of 11 May 1929 referred to attempts to promote closer working of William Jessop & Company and J.J. Saville & Company (both Sheffield- based firms) under "a common management". In 1932, the board considered the consultant Webster Jenkinson's proposal of "consolidating the subsidiary companies into a small number of groups" [MRC Mss19A1/2/56 f19]. These comments from different sources over a number of years suggest that it was recognized that the companies in the group were not in fact operating in an integrated way: common ownership had not resulted in common control of their activities. It would seem that Walker's resignation was more about the theory than the practice of governance at BSA. He overestimated the real extent of centralization in the group. It appears as if the triumvirate of Martin, Manville and Rogers was not open to discussion. In Hirschman's terminology [1970], Walker found a prompt exit a more satisfactory option than the use of voice. In this respect he differed markedly from the other dissident who we now consider, E. M. Griffiths.

E. M. Griffiths: E.M. Griffiths was, like Walker, a director who resigned from BSA in the 1920s. But unlike Walker, Griffiths continued his involvement with the company until the mid-1930s, and again unlike Walker, he did not act alone. He communicated with shareholders, both by circularizing them and by his detailed interventions at shareholders' meetings. A study of Griffiths' conflict with the company cannot thus be separated from the critical reaction of shareholders generally. Further, Griffiths is also of interest because, unlike Walker, he took seriously the role of financial reporting in corporate governance, and involved BSA's auditors in his dispute with their clients. His campaign treated the company not as an isolated problem but as part of a wider set of issues concerning the amount of information and control conceded by quoted companies to their shareholders. Griffiths was active at a time when minority shareholders were becoming more assertive. For instance the Shareholders' Protection Association was founded in October 1932 [*The Economist*, 9 September 1933, p. 499]. Griffiths was able to associate himself with a group of small investors who were not content to stay silent when dissatisfied. This was a new challenge to the personal capitalism of BSA, and it took the board some time to adjust to it.

E.M. Griffiths and Corporate Structure: E.M. Griffiths was Chairman of Burton Griffiths (a London-based machine tool sales agency) when BSA acquired it in 1919. He retained the chairmanship of his company and was also placed on the boards of BSA and BSA Tools Ltd. As a result of the acquisition Griffiths became a large shareholder in BSA: with 45,000 ordinary shares he was the third largest individual shareholder. When he resigned from his directorships between 1921 and 1922, Griffiths used his shareholding as a base from which to launch a much more comprehensive attack than T.S. Walker, on the governance and performance of the company over the next decade.

Griffiths first signaled his dissatisfaction in 1921, when he resigned from the Burton Griffiths board "as my advice was over-ruled" [CRO PA 594/2/1/59 Griffiths to Rogers, 21 February 1922]. Like T.S. Walker, he also attacked the group structure. He blamed this, rather than external economic conditions, for the poor performance as signaled by the low dividend paid out. He pointed out that the new group had duplication of services — e.g. two firms of auditors, two lawyers — as well as "other highly paid officials with non specific titles or responsibility" [CRO PA 594/2/1/59 Griffiths to Rogers, 21 February 1922]. The company, from his perspective was overwhelmed with "red tape, reports, routines &c" [CRO PA 594/2/1/59 Griffiths to Rogers, 21 February 1922]. Griffiths proposed "two more managing directors, having real knowledge and experience of the particular business they have to manage and having proper and specified responsibilities" [CRO PA 594/2/1/59 Griffiths to Rogers, 21 February 1922]. He determined to introduce more operational expertise and reduce the level of bureaucracy in the company.

Hallewell Rogers rebutted Griffiths' criticisms. The directors had thought it a "sound policy" to restrict the dividend. Griffiths had himself requested copious amounts of information; reports were in any case needed "for the general good" [CRO PA 594/2/1/59 Rogers to Griffiths, 24 February 1922]. Evidently, the board of BSA were not prepared to discuss his criticisms. Griffiths soon afterwards resigned from all his directorships, though he continued to take a very detailed interest in the company's performance.

E.M. Griffiths and Financial Disclosure; The Role of the Auditors: In 1927, Griffiths wrote to Eadie, who had "sympathized" with him at the time of his resignation, with a list of detailed questions about the performance of the subsidiaries, including whether BSA Tools, Burton, Griffiths and Daimler Hire were profitable, how the obsolete BSA Guns plant was being valued, and how the group intended to repay its 6.5% loans [CRO PA 594/2/1/59 Griffiths to Eadie, 28 March 1927]. BSA's reaction was initially as quietly dismissive as it had been towards Walker's criticisms. On 13 May 1927, Martin advised him that "your questions were before us in outlining the chairman's speech", which had been delivered at the annual meeting on 10 May. If Griffiths read this "carefully" he would find his questions answered [CRO PA 594/2/1/59 Martin to Griffiths, 13 May 1927]. Griffiths did not find the answers, only "general allusions", and was provoked to take the unusual step of writing to Carters, and to Touche and Company, BSA's two firms of auditors. His argument was that "this company's balance sheets do not give the shareholders sufficient information" and to ask that the "coming balance sheet" should be more informative [CRO PA 594/2/1/59 Griffiths to Carters, 10 December 1927].

Griffiths was reflecting a lively contemporary debate about the need for reforms of corporate accounting. The Greene Committee had been formed in 1925 to take evidence on the issue of company law reform. Modernizers strongly urged the need for financial statements to be more explicit, for publication of a profit and loss account as well as a balance sheet, and for groups of companies, like BSA, to be obliged to produce consolidated financial statements that would show the performance of the subsidiaries as well as the parent company. The idea of consolidated statements had been discussed in the U.K. since 1919, but the practice had been slow to catch on [see Edwards, 1989, pp. 225-238]. General objections from within British boardrooms were that shareholders were protected by the audit, that they could ask the directors for any information they wanted, and that compulsory disclosure was commercially damaging. BSA followed this trend. The company produced a balance sheet showing the subsidiaries in a single line as part of the parent's investments, and reported a single figure of credit to profit and loss including income from the subsidiaries. The chairman's speech to the annual meeting included commentary on the performance of the subsidiaries, but in as much or as little detail as he chose.

Griffiths' letters to the auditors provoked an immediate reaction. The two audit firms discussed a reply and also conferred with Hallewell Rogers within a week of receiving Griffith's letter. Both firms were in agreement "as to the undesirability of . . . being inveigled into a discussion with a shareholder" about the accounts [CRO PA 594/2/1/59 Carters to Touche, 11 January 1928]. These were "a matter for the discretion of the directors" and the auditors could not intervene in this [CRO PA 594/2/1/59 Carters to Touche, 16 December 1927]. But Touche also commented that they had "a good deal of sympathy" with Griffiths' proposals. BSA's balance sheet gave "practically no information about the position of the operating companies". They favored "full and frank information to shareholders" [CRO PA 594/2/1/59 Touche to Carters, 15 December 1927]. BSA was seen by professionals as being unhelpful, but company law would not compel them to be more informative, and the legal position was unchanged from Buckley's 1906 views. Carters commented that Griffiths' "attitude as an ex-director of the company is perhaps not identical with that of the average shareholder" [CRO PA 594/2/1/59 Carters to Davis n.d.], but he was taking a stance on behalf of all shareholders. His letters to the auditors were supported by references to "recent events connected with Messrs Vickers, Armstrong, Whitworth, Marconi etc" (i.e. financial scandals) which had "come out to the astonishment of shareholders and the public alike" [CRO PA 594/2/1/59 Griffiths to Carters, 3 January 1928].

From 1928 onwards Griffiths seems to have stepped up his campaign to improve BSA's communication of financial information. He may have seen the disclosure of more information as providing an incentive to better financial performance, as directors might then expect better-informed shareholders to be more vocal in their criticisms and more likely to apply pressure via their votes at the annual general meeting. In January 1928, for instance, Griffiths sent Carters a long list of suggestions for information that might be included in the annual reports [CRO PA 594/2/1/59 Griffiths to Carters, 3 January 1928]. He was also concerned with BSA's comparatively poor return on capital employed. In March 1929, he circulated the largest ordinary shareholders in BSA (those with 500 or more shares) with a letter reviewing the profit position. BSA had, over the previous 8½ years, produced an average return of 1.75% on its share capital. By comparison Rolls-Royce had paid an 8% dividend in the same period, the Enfield Cycle Company 10%, Edgar Allen and Kayser Ellison (both steel companies) 2.5% and 5% respectively [CRO PA 594/2/1/59 Griffiths to shareholders, March 1929]. Griffiths had chosen this selection of firms to mirror in the minds of the shareholders the composition of the BSA group (a prestige motor manufacturer, a respectable cycle and motor cycle company, two specialist steel firms). Obviously the background to these better results would need to be considered: how was it that the sum of BSA's parts produced worse results than one might expect from individual component companies? Griffiths had invoked a simple but stark contrast.

Over the period of Griffiths' criticisms, BSA had in fact made some voluntary concessions in relation to financial reporting. Starting from the 1928 year-end, BSA produced a 'consolidated statement' which stated the aggregated assets and liabilities of the subsidiaries. This reflected a trend in the 1920s for "a modest rate" of increase in the number of companies producing group information [see Edwards and Webb, 1984; Edwards, 1989]. BSA's statement was better than the one-line entry, but as all the reserve accounts, including profit and loss and also depreciation, were according to Griffiths "lumped together", it left the information "difficult and obscure" [CRO PA 594/2/1/59 Griffiths to Manville, 5 April 1928].

The directors were well aware of the threat that Griffiths represented. In July 1928, R. Rotherham, one of the directors of J.J. Saville & Company, wrote to Martin suggesting ways to "fight" him. One of these was to invite Griffiths to rejoin the board. If he refused, his criticisms could be ignored: if he rejoined, he would be placated [CRO PA 594/2/1/59 Rotherham memo to Martin, 18 July 1928]. This proposal suggested that the board saw the problem presented by Griffiths in outsider/insider terms. Seven years after resigning, he was no longer a well-informed insider, but a kind of unelected representative of the main body of shareholders.

The Annual General Meeting as an Outlet for Criticisms: Certainly, Griffiths contributed to some very tense annual general meetings over the next few years, and although he typified British investors as "patient oxen" [CRO PA 594/2/1/59 Rotherham memo to Martin, 18 July 1928], the BSA directors in fact had to deal with numerous shareholders' criticisms at annual meetings in the early 1930s. These included comments about the "want of energy and ability behind the directors and the management" and the need for "a body of competent business men", the donations made by BSA to Birmingham University and searching questions about the reserves [CRO PA 594/1/1/2/13 BSA meetings file 1931, TS draft of discussion following chairman's speech, pp. 21, 22-36]. The Chairman, Manville, put up a poor fight against these, finally telling one persistent questioner that "It is too complicated to explain in a few words. If you want a detailed explanation I will see you are written to" [CRO PA 594/1/1/2/13 BSA meetings file 1931, TS draft of discussion following chairman's speech, p.37]. One of the directors, Pollen, later described the meeting as a "fiasco" [CRO PA 594/2/1/2/23 Pollen to Martin, 8 December 1931].

The 1932 annual meeting, held at the nadir of BSA's fortunes, was even stormier. At this meeting, Griffiths spoke at great length. He identified himself with investors (as opposed to speculators) whom he saw as "the backbone of the company" [CRO PA 594/1/1/2/15 BSA meetings file, 15 November 1932, TS draft of discussion following chairman's speech, p.12]. A variety of other speakers also raised detailed queries about the results, and in some cases criticized the structure of the board. For example, one shareholder was critical of the appointment of a new director (Alexander Roger) who had "twenty directorates". Another thought that there were "too many directors . . . pulling the strings and getting the profits", an allusion, presumably to their fees [CRO PA 594/1/1/2/15 BSA meetings file, 15 November 1932, TS draft of discussion following chairman's speech, p.21].

The Effects of Criticism at Annual Meetings: The shareholders who spoke at annual general meetings tended to rebut Carters' suggestion quoted above that Griffiths' interests were not those of "the average shareholder". The annual meeting was a forum in which the more motivated small shareholder could make detailed and knowledgeable criticisms. It could be argued, however, that there was little they could do to make fundamental changes in the way BSA was run, and that they were an irritant rather than a threat for the board. Minority control by a block of board members meant that shareholders could not readily vote down the directors. Poor performance made the prospect of disposal of shareholdings on the market unattractive as investors would be faced with selling at a loss, and this was not a period in which a hostile takeover (offering a change of top management) would have been an option.[6] A bad-tempered annual meeting, though a trying experience for the directors, did not predict an upheaval in ownership.

The harm criticism might do, however, was in making BSA appear as a bad lending risk if news coverage and gossip spread details of a "fiasco" like the 1931 meeting. At the end of 1931 the Midland Bank threatened to withdraw its overdraft support to BSA. If the bank went ahead with this threat and the company had to agree a change in financial structure, it would require the support of shareholders at an extraordinary general meeting. Pollen commented that at any future meeting the board would need to get the "active co-operation" of ordinary shareholders [CRO PA 594/2/1/2/23 Pollen to Martin, 28 December 1931]. The reaction of the latter, he continued, "is not a pleasant kind of music to face, but it makes the whole difference if the music is of our own composition" [CRO PA 594/2/1/2/23 Pollen to Martin, 28 December 1931]. The implication was that BSA could no longer rely on bland responses or on the support of the courts: it would have to get the shareholders on its side by persuading them that the board was competent to steer the company through financial hardship.

Thus the effect of the criticisms at annual meetings was to further undermine the strategic position of the controlling triumvirate, which was already seriously threatened by the bank's increasing concern about the company's liquidity situation. This combination of shareholder and stakeholder dissatisfaction gave Docker, by now a senior member of the Midland Bank board, an opportunity to intervene again in governance at BSA. Through Docker's backroom influence, Sir Alexander Roger was appointed chair at the end of 1932, and he assembled a new regime to take BSA through the remainder of the 1930s. Shareholder and stakeholder behavior was crucial in altering board membership. The episode illustrates that personal capitalism was susceptible to challenge — what Hirschman [1970] terms the exercise of "voice" — and could be changed. Strategic position under personal capitalism had to be defended as sustained criticism could enforce concessions.

BSA's Responses to Criticism: Certainly, in the later 1930s, BSA seems to have taken a number of steps to improve shareholder

[6] See Hannah [1974, p.70] on the reasons for the rarity of takeovers before the 1950s in the UK.

opinion. The change in board composition was not the only one. The annual meetings appear to have been more carefully managed than hitherto. Whereas the annual meetings at the beginning of the 1930s seem to have been a forum in which Griffiths (and others) went on the attack and the directors stood their ground (or lost it) as best they could, the later meetings show greater planning. There was more of an attempt to take control of the event. The 1933 annual meeting was preceded by tours of the Midlands factories, a buffet lunch and a "talking film presentation" about the different cars produced by the group. Alexander Roger, the Chairman, gave a speech, the draft of which had been discussed with seven managers [CRO PA594/1/1/2/16 Meetings file, 1933]. At the 1933 annual meeting, only two questions about the financial position were asked, one with the rider "If you think that it is inopportune to answer the question I shall be quite satisfied" and another which Roger admitted he had expected and to which he had prepared a written reply [CRO PA594/1/1/2/16 Meetings file, 1933]. Roger could thus give the impression of being in control.

Two other changes reduced conflict. From 1934 onwards, the production of far more detailed consolidated accounts did much to address shareholders' concerns about disclosure. *The Accountant* praised BSA's 1934 accounts as "an excellent example of modern practice" and published them in full "for the perusal of our readers" [27 October 1934]. It did so again on 6 November 1935 and 29 October 1938. This was a remarkable reversal of the situation in the 1920s, when *The Statist* [1 May 1926] had described BSA's reluctance to disclose as "regrettable". Also pleasing for investors was the improvement in BSA's financial position, with a rather wavering return to profit from 1932 and a definite recovery, accompanied by the resumption of preference and then ordinary dividends, after 1936. Increased demand for armaments and also for cars, motor cycles and bicycles contributed, as did internal reorganization. By the annual meeting of 1938, there was a string of congratulations for the chairman's "very inspiring remarks" [CRO PA594/1/1/2/23 Meetings file, 1938]. It is debatable how far investors were swayed by the reappearance of dividends, and how far by the changes in corporate governance — financial reporting and reorganization — which suggested that they could have more of an insight into BSA's performance. The fact that the governance changes preceded the dividend resumption suggests that it was the former which were more influential.

Commentary on E.M. Griffiths' Criticisms: The pressure that Griffiths put on the company to increase its disclosure (and the response it eventually invoked) is of particular interest because it reflected the ongoing controversy during the 1920s and 1930s about the extent to which companies in Great Britain should improve their disclosure to shareholders. The Companies Act, 1929, was seen by a number of commentators as a disappointment because it did not do enough to mandate comprehensive disclosure, such as the production of consolidated financial statements and a profit and loss account. The Institute of Chartered Accountants in England and Wales stated in 1928 that shareholders who were unhappy with corporate disclosure had "the remedy to a large extent in their own hands" in that they could ask questions at annual meetings and/or stipulate that annual reports should be more informative. Hence, further legislative interference was unnecessary and indeed undesirable as this would open up companies to pressure from trades unions and others [see Maltby, 2000].

Historians of accounting and auditing have traced the transition from this hands-off stance to the much more comprehensive disclosure mandated by the Companies Act, 1947. Kitchen [1972] and Edwards [1976] chart the varying attitudes of the accounting profession to wider disclosure. The publicity given in the 1930s to the Royal Mail Steam Packet scandal increased awareness of the desirability of more informative accounts, but did not do away with the suspicion that companies would be better left to make their own independent solutions to accounting problems. Bircher [1988 and 1991] comments that the intervention of some accountants and auditors prior to the outbreak of the Second World War "produced no tangible results" [1988, p.119] and it was only the changed national mood in wartime that encouraged the formation of the Cohen Commission leading to the legislation of 1947.

Certainly companies did continue to employ accounting techniques that hid profits in good years and boosted them in bad ones. Napier [1991], for example, discusses the way in which Peninsular & Oriental Steam Navigation Company improved its results between 1915 and 1931. But it was also the case that there was willingness to use new accounting methods where these were seen as informative and helpful. Bircher [1998], Kitchen [1972] and Edwards [1976] identify companies which chose to make more explicit disclosures than the law demanded, for example at Dunlop [Edwards, 1976, p.303]. Camfferman and Zeff [2003] similarly examine the reporting practices of Unilever in the 1930s and 1940s. This is a case which suggests parallels with BSA. Although Frederick Cooper of Lever Brothers dismissed the need for consolidated balance sheets — shareholders, he said were "not entitled to know" that information — he made "significant steps" towards improving the company's reports in that period, including very detailed reporting of segmented sales and profits [Camfferman and Zeff, 2003, pp.176-178]. Cooper's aversion to consolidated accounts did not preclude wider disclosure where he thought it helpful and informative.

In the context of the accounting history of the 1930s, Griffiths' intervention suggests that BSA's directors and auditors were acting in line with certain contemporary trends. The auditors, like some of their professional colleagues, were concerned about current mandated practice but chose not to intervene where the law did not.[7] BSA was prepared to extend disclosure in order to improve relations with shareholders and to that extent Griffiths' aggressive criticisms bore fruit. BSA did so, it is argued here, because they were part of a wider debate about the need to keep shareholders informed. BSA's directors were not prepared to stick their necks out by making these disclosures in the 1920s, but they did do so in advance of legislation because they saw a chance of improving their image.

CONCLUSIONS

Personal capitalism can take a variety of forms. It is not reducible to family capitalism and in interwar Britain ranged from the small family firm to the relatively large holding company.[8] As a generic type, however, the personal capitalist business organization displays a strong linkage between ownership and control, has a limited managerial hierarchy, and tends to evolve a governance system based on the establishment of a governing group who place a high premium on loyalty, trust and stewardship as core social habits.[9]

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[7] They can be contrasted with, for instance, Henry Morgan of the Society of Incorporated Accountants and Auditors, who called throughout the 1930s for improved disclosure to increase shareholders' confidence. There was support in some sections of the accounting profession for change, but by no means all accountants were swayed by it. See Maltby [2000, p.44].

[8] For the activities of personal capitalist firms in different industries see Lloyd-Jones and Lewis [2000, 2003], for the role of the holding company see Fitzgerald [2000] and Quail [2002].

[9] The notion of social habits is derived from Veblen. See Hodgson [1998, pp. 463-477]; Lloyd-Jones and Lewis [2003, pp. 230-231].

Quail's approach has been particularly informative in drawing attention to the broader aspects of personal capitalism and this sets the context for exploring the idiosyncratic patterns emerging at the firm level. Certainly at BSA the evidence suggests that there was only limited development of a managerial hierarchy. This tends to confirm Quail's view that in a proprietorial firm there is "fixity of organisational structure" which strongly embeds the personal power of directors [2000, p.2]. However, in the case of our more detailed analysis of corporate governance at BSA, the evidence demonstrates the underlying flexibility of a personal capitalist firm. A dominant coalition acquired "strategic position" at the top of the company and consolidated personal control for over two decades. However, a sustained shareholder critique created the context for major changes in the dominant group and in the form of governance by the early 1930s. Our case study suggests that "strategic position" is contingent over the long term on the capability of executive management to ensure optimal performance. It followed that the strategic positioning evolved by the triumvirate at BSA needed to be defended, and sustained criticism led to concessions and eventually to its loss of power.

The episodes explored in the paper are all instances of shifts in power, or in the acknowledgement of power. The case of Newton v BSA confirmed the ability of the directors to disclose as much or as little information as they chose, within the flexibility provided by company law. Some shareholders protested, but the majority could not be mobilized to demand more informative financial reports. This was a period when small shareholders were not likely to attempt to intervene in governance. BSA set a legal precedent and confirmed the practice of a number of other companies. But the fact the case was brought is also a reminder of the potential for conflict even at a high point, historically, of directorial power. It also indicates the importance of the close link between governance and issues of accountability.

The second episode, the Daimler merger of 1910 consolidated director power and produced the triumvirate who remained in control of the enlarged BSA group until the early 1930s. This may be seen as an exemplar of the entrenched personal capitalism of interwar British business, which has been attacked by Chandler. That is, a small group of directors who acquire "strategic position" and appeared impervious to shareholder pressure and resistant to the demands for change. The personal control of the triumvirate was embedded at BSA in the person of Dudley Docker whose strong connections with the firm led him to draw the dominant group of directors into a set of regional and national networks (during the 1920s three BSA directors were at various times Members of Parliament, including Rogers and Manville) that appeared to place them at the cutting edge of progressive business opinion. But governance, even in personal capitalist firms, cannot simply be reduced to a monolithic group of directors, and in the case of BSA, the events of the 1920s and early 1930s saw the erosion of the triumvirate's personal power as it faced sustained challenge and eventually lost the confidence of Docker.

The third episode, exploring a set of internal and external events affecting BSA in the 1920s and 1930s showed that directors could not persistently resist change. The pressures they encountered came partly from individuals with insider knowledge, such as Walker and Griffiths, and also from the body of shareholders who no longer behaved passively. As O'Sullivan has asserted, a system of corporate governance helps shape "who makes investment decisions in corporations, what type of decision they make, and how returns from investments are distributed" [2000, p.1], and in the 1920s BSA shareholders, influenced by dissidents such as Griffiths, were increasingly driven by disappointing results to question the business competence and strategic decisions of the triumvirate. Changes in the external business environment also added to the pressures faced by business leaders in firms such as BSA. For example, the Greene Committee of 1925 was a reflection of a growing post-war movement in favor of better quality accounting disclosure. The conjuncture of internal and external pressure came to a head at BSA in the "fiasco" of the 1931 annual meeting which led to the breaking up of the triumvirate (by 1932 it had lost executive control), the re-organization of the company under a new chairman, an improvement in the provision of disclosure, and a recognition of the need to respond more convincingly to shareholder questions.

While the period 1900-1950 has been described as a "golden age of directorial power" [Hannah, 1974], this study of BSA shows that the form of governance was more fluid as a dominant group of directors was forced to give way when the balance of power was shifted by sustained shareholder criticism and changes in the legal and business environment. The case also illustrates the flexibility of personal capitalist firms. At BSA, effective choices were made concerning the firm's governance and the occupation of "strategic position" was not necessarily a guarantee of directorial permanence.

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