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Accessing capital markets: Aristocrats and new share issues in the British bicycle boom of the 1890s

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Accessing capital markets: Aristocrats and new share issues in the cycle, pneumatic tyre and related industries, 1892-1898

Abstract

The paper reconsiders the mid-1890s boom in which a large number of firms in the bicycle, pneumatic tyre and related industries were floated. It investigates why so many of these issues featured aristocratic directors in their prospectuses and finds that they represented social connections that were a necessary condition for regional industrial firms to gain a London listing. The case shows that the role and value of these directors was to access to capital markets and financial resources, as opposed to a temporary aberration designed to inflate share prices and mislead investors.

Keywords: Cycle, pneumatic tyres, initial public offerings, aristocracy, United Kingdom

Introduction

The literature on the history of British capital markets has noted a divergence between the London as a financial centre and regional, specialist clusters of industrial firms. In 1931, the Macmillan Committee identified a so-called 'equity gap', suggesting significant obstacles for industrial firms seeking suitably priced risk capital from financial markets. To some historians, the City of London continued to operate as a gentlemanly elite, relying on mutual trust through an over-protective old-boy network.[1] The development of the venture capital industry after 1980 addressed the equity gap to some degree, although many argue that inaccessibility to equity markets and to the London markets in particular, continues today.[2]

The reasons for this separation were apparently economically rational, at least to begin with. In the late nineteenth century, overseas investments, particularly large fixed interest bonds in mining, commodities, railways and infrastructure offered higher yields and lower transaction costs relative to new issues in domestic industrial securities.[3] Another suggested reason for London turning away from domestic industrial issues was the experience of the 1890s domestic boom.[4] New industries, most notably those based on the development of the pneumatic tyre, including bicycles and motor vehicles, formed the basis of a promotional boom that ended in bankruptcy and recrimination among its leading players. Controversial promoters, Ernest Terah Hooley and Henry Lawson, although from middling backgrounds themselves, famously recruited members of the aristocracy to be listed in the prospectus as board members of their newly listed companies.[5] The literature has interpreted their use of Lords on the board either as a temporary aberration, or a method of systematically inflating prices, and as part of a wider scheme of fraudulent activity.[6]

In this paper we offer a new interpretation, suggesting that the use of Lords in company promotion was symptomatic of a gap that had already emerged by the 1890s between London as a financial centre and regional clusters of industries. Specifically, employing aristocrats constituted a market entry strategy for new regional industrial firms to gain access to London finance. The use of such a strategy was more necessary in the absence of underwriting or other sources of insurance or access to large issuing houses like Barings. Our interpretation thus regards access to social networks as a crucial aspect of company promotion, and the board as having a governance function of sustaining access to such networks. By presenting the historical and social dimensions of these relationships, the paper adds to the wider corporate governance literature on the function of boards of directors in terms of access to capital resources, relational capital, legitimacy and reputation.[7]

The bicycle and pneumatic tyre industry provides a useful illustration because it involved a large number of firms and was at the centre of the domestic flotation boom in the 1890s. Evidence can therefore be triangulated between examples of regional firms with London listings; regional firms with regional listings, variation in use of aristocratic directors, and between hot and cold issue markets. In other industries and markets, new equity issues were more piecemeal (for example iron, steel, chemicals, and textile finishing based in Manchester and Sheffield). An exception was the brewing industry, whose firms also accessed the London market and in a minority of cases had board members drawn from the political establishment and aristocratic social networks. These board members appear to have had a positive effect on share price behaviour during the phase of intense political lobbying after 1900, although the role of one firm, Guinness, seems to have been particularly influential.[8] Evidence from the cycle industry therefore has the potential to complement and further contextualise such relationships between board composition and stock exchange listing decisions.

In summary, our interpretation offers a potential contribution in several areas: First, the methods used to raise equity finance in the British economy with reference to the promotional methods typically used in initial public offerings (IPOs) before 1914; second, the networking function of directors and third, the early history of the bicycle and pneumatic tyre industry. In the next section the literature in each of these areas is reviewed, leading to associated specific research questions about the role of aristocrats in the promotion of industrial companies. These are examined in the next section by the identification of a sample of firms in the bicycle, tyre and associated industries such that their characteristics can be systematically compared. A concluding section shows that aristocratic directors were a necessary requirement for the purposes of accessing London finance by industrial firms and that the ultimate failure of these methods was symptomatic of a growing divergence between the industrial and financial sections of the British economy.

Equity finance, the function of boards and the bicycle and pneumatic tyre industry

IPOs in the UK before 1914

In the period before 1914, new industrial firms faced an apparent choice between listing their shares on the London Stock Exchange (LSE), and a listing on one or more of several regional stock exchanges. An LSE listing offered the advantage of a deeper market whereas regional exchanges avoided the transaction costs associated with the specialised functions of brokers and jobbers in London. Regional listings also mitigated information asymmetry since local knowledge of the venture, including the reputation of the vendor and the prospects for the business, helped ensure that new securities were issued at prices close to their values.[9]

Several large sample studies have examined UK IPOs in the decades prior to 1914 with a focus on higher status, or elite directors. In these studies, elite directors are typically defined as peers, politicians and military officers. There is little evidence that elite directors played a decisive or even positive role. They did not for example reduce the risk of failure of IPOs on the LSE in the period 1900-1913.[10] Other evidence shows that the appointment of well-connected directors (either MPs or directors with aristocratic titles) did not increase the rate of return on English and Welsh banks equity during 1879-1909 and that M.P. directors had negative effects on the financial performance of bank equity, whereas directors with noble titles had no distinct effect.[11]

These findings offer specific evidence in the context of the more general argument that the capital markets failed the British economy. According to this view, lack of effective regulation meant that the market was subject to manipulation and failed to attract sufficient capital to secure Britain's longer-term investment needs, contributing to a decline in its international position.[12] An important reason was the accusation of fraud in leading cases, and, partly as a consequence, the role of lords and other figures of social standing was satirised by contemporary social observers.[13]

However, it has also been suggested that it would be unreasonable to generalise from these cases. Indeed there were other examples, such as the Kodak flotation, when Eastman recruited Lord Kelvin to the board precisely because of his relevant technical and business experience. Voluntary regulation therefore assured flexibility and provided suitable incentives for companies to go public.[14] These divergences in the literature suggest the need for further empirical research into the rationales behind the recruitment of elite directors into the financial sector.

Connected directors and social networks

Financial research that has examined the role of directors in new issues generally has emphasised their function in quality signalling such that the risk of failure or mispricing in an IPO is reduced. Signals include the reputations of directors and their associated managerial talent, along with the reputations of auditors, underwriters, and venture capitalists.[15] The affiliation and legitimation aspects of such signals are also of substantial importance.[16]

Directors' reputation can thus provide a credible signal in some circumstances. Elite directors are more likely to have useful political connections. Such connections can enhance financial performance of newly listed firms. Conversely, in some context, they may send a negative signal about the likelihood of conflict of interest and corruption.[17] Also, in common with other directors, elite directors may provide resources for the firm in terms of expertise based on specialist knowledge or business experience.[18]

Even in the absence of political connections or relevant expertise, elite directors' reputation may also be valuable in its own right. In the late nineteenth century, aristocrats were an essential element in the marketing of shares, and added prestige, especially if the list of names resonated with the public.[19] Such directors would be reluctant to sacrifice their reputation and their social position by sitting on boards of poorly performing firms, and rather would try to enhance their reputation by associating with firms with good growth prospects and sound finances.[20]

In the pre-1914 UK new issue market context, information asymmetry was as severe if not more so than in modern markets. Victorian company promoters were better informed about the prospects of the ventures they were selling than were the vast majority of potential buyers.[21] However, access to certain networks was also clearly an important part of the process of financing economic activity. According to one survey, politically connected directors boosted the share prices of new technology firms, also providing greater access to external finance, both debt and equity, and improved profitability.[22] Related evidence suggests that shareholdings were typically highly concentrated post issue,[23] providing potentially important context for the role of elite directors within such ownership structures. Politically connected directors could allow firms to access their networks of acquaintances and establish contacts with bankers and possible financiers.[24]

Aristocratic directors may have been recruited to boards for similar reasons. The Lords on the board, or 'guinea-pig' directors, phenomenon first appeared in the 1825 company promotion boom. Following the restrictions on incorporation after the South Sea bubble, 1825 was the first opportunity for such a boom since 1720. Of course, the South Sea scheme had also utilised famous and titled individuals for the purposes of pushing the stock, so in that sense, nothing changed as Britain rapidly industrialised in the railway booms of the 1830s, 1840s and 1850s. Guinea pig directors also featured during the associated 'railway mania' through to the promotional booms of the 1920s.[25] By the 1880s, as Kynaston notes: 'the upper reaches of the City moved increasingly close to the traditional landed governing class, thereby achieving an intimate and privileged access to power denied their industrial counterparts in the provinces'.[26] Provincial listings, particularly of railway and banking stocks, appealed to pools of investors with access to local social connections and information sources, whereas London especially for firms headquartered there, offered a larger potential secondary market with a low equity premium.[27]

An important possible reason then, why promoters like Hooley and Lawson might use aristocratic directors would be that they offered access to a market that might otherwise have been closed to provincial industrial firms. Hooley certainly utilised peers for their names, whom he described as 'front sheeters' for their prominent role of the first page of the prospectus in return for cash. Hooley had a clear idea about the value of hierarchy in the peerage in this respect and also of military officers and politicians.[28] However, aristocrats were used in some cases but not others, with the larger London based floats apparently requiring greater aristocratic presence, suggesting that further empirical research might establish the precise circumstances in which they were needed.

The bicycle and pneumatic tyre industry

Company flotations in this sector have unsurprisingly attracted considerable attention from business and economic historians given the significance of the sector in the new issues market and their importance for the wider economy.[29] Specifically, the cycle, tyre and related industries sector offers a useful case study for a number of reasons. First it represented a new sector of the economy based on newly developed and closely inter-related technologies introduced in the late 1880s and early 1890s with the opportunity for rapid potential market expansion if the needs for associated finance could be met. The ability to raise such finance in substantial part depended on patents and associated licensing agreements. In the case of Dunlop, to effectively exploit such patents, the firm launched overseas subsidiaries, and also sub-contracted most component production to other firms, concentrating only on assembly at its factory in Coventry.[30] Patents tended to become obsolete quickly as new methods were invented. Moreover, new firms relied upon associated investments in infrastructure, which in turn were at the behest of government and municipal approvals.[31] Future cash flows were therefore risky and difficult to ascertain, thereby increasing the potential cost of finance. Small pioneering regional firms, like Fred. Hopper and Co. struggled to obtain the finance required to expand their businesses.[32]

Notwithstanding these problems, substantial equity was raised from capital markets. In the period c.1896-1914 the cycle industry raised over £14m in new share issues and the motor vehicle industry over £6m.[33] There were significant booms in company flotations in cycles, tyres and embryonically in motor vehicles in 1896-1897 and a more fully-fledged boom in motor vehicles in 1905-1906. In the period 1882-1914 there were 328 new share issues with an average capital raised of £64,000 each.[34] The boom of 1896-1897 was notable for the tendency to include aristocrats on the boards of directors, few of whom, with minor exceptions, had relevant business experience, some of whom were paid by Hooley in his capacity as promoter.[35]

To summarise, there are two broad explanations of the value of aristocrats on the boards of IPO firms generally and those participating in the bicycle boom in particular. First, lords were merely nominees, with no useful business knowledge employed by fraudulent promoters to push mispriced shares and to overcome the information asymmetry problem between promoters and potential shareholders. Second, lords were a bridge to a social network essential for access to the London capital market otherwise denied by institutions preoccupied with overseas investments. Of course, the two explanations are not mutually exclusive and indeed may complement one another. However, in concentrating on the first, the above literature has tended to neglect the second, and so the next section introduces further evidence designed to shed further light on the role of aristocrats in securing market access.

Data and methodology

To investigate these explanations a database of firms in the bicycle, pneumatic tyre and related industries was constructed for the period 1892-1897. The sector was defined to include firms producing bicycles, components for bicycles, pneumatic tyres and also motor vehicles.[36] In total, 73 new listings were identified from *Times Book of Prospectuses*. In each case the names and occupations of board members were obtained from the prospectus using the same source. Information concerning the exchange(s) on which the shares were to be listed was also obtained along with share price data using the London Stock Exchange (LSE) listing application Report Books, the share listings in national and regional newspapers.[37]

For the purposes of further analysis, several grouping variables were established. First, the sample was grouped according to the principal outcome variable to be explained: stock exchange listing, distinguishing between London and regional listings, or where firms were listed in both London and a regional exchange. In almost all cases (with three exceptions) firms with London listings also had quotes on regional markets, so for practical purposes the distinction is between regional only and London and regional. For this reason, it is unlikely that differential returns on London and regional markets were influential in the listing decision.

The sample was also differentiated according to whether the firm formally applied to the LSE or the shares were listed unofficially. The main explanatory variable was defined as the presence of 'lords', based on the titles of directors listed in the prospectus.[38] Further variables with the potential to explain variation in listing, included: product type, distinguishing between tyre and cycle/other, on the grounds that tyre firms were typically larger and thus required greater access to finance; whether or not the firm controlled a patent and therefore required greater quality signalling to validate cash flows forecast to arise from intangible assets; whether or not additional capital was raised in the form of debentures and preference shares, with the expectation that London may have been a more suitable for multiple classes of capital; whether or not the firm had a head office in London, with the expectation that the convenience of geographical location may determine how finance is accessed. In addition, data was collected for size of issue in terms of total capital and a share price index was established based on all firms with regular quotations, so that individual firms could be compared with an industry sector index based and weighted average returns compared over time. The volume of issues and share prices were analysed by sub period to identify 'hot' and 'cold' issue markets, so that the presence or absence of aristocrats and other elite directors on boards in such periods could also be compared.

An innovative analytical approach is used to identify the conditions that were necessary and sufficient for accessing London capital. Exact logistic analysis[39] is appropriate for small data samples consisting of 1/0 variables and has been used in other disciplines, most notably medical research, but not, to our knowledge, thus far in business history or related subjects. We believe this approach has potentially wide application in business history and other historical settings, given the common occurrences of small sample sizes and recourse to qualitative variables. A further advantage is that systematic relationships identified using the exact logistic method can be supported using case studies or further qualitative evidence drawn either from observations confirming the larger correlation or from outliers, thereby triangulating the evidence and pinpointing the nature of underlying relationships. To supplement the above dataset, therefore, illustrative cases were also identified and investigated using a combination of press coverage and accounting data, allowing further consideration of the specific motives of the promoters and also the accuracy or otherwise of their valuations of the underlying businesses. Taken together, these diverse sources allow for the triangulation of evidence, as set out in the next section.

Evidence and analysis

The distribution of aristocratic directors

Table 1, Panel A describes the sample distribution across the categorical variables used, which were in most cases evenly distributed. The exceptions were the tyre sector, which was small compared to cycle producers, and the relatively small number of firms issuing preference shares and debentures (17 and 15 respectively). Table 1, Panel B reports the results of the exact logistical regressions for the sample and variables discussed above. As table 1 shows, the presence of a lord on the board was the only significant predictor of the decision to apply for a London listing. A firm with an aristocratic director(s) was around 7.5 times more likely to seek a London listing than a firm without such directors.[40] There is thus strong evidence that Lords were recruited to boards for the purpose of accessing London finance. To investigate further, the tests were repeated replacing the London stock exchange listing dependent variable with a similar dummy, determined by whether or not the firm was listed as a London quotation by the *Financial Times*. The result in this case was that the lord on the board variable became insignificant. To explain the difference, it should be that substantially more London quotations were listed in the *Financial Times* than there were cases of firms officially applying to the stock exchange admissions committee.[41] The implication therefore was that the *Financial Times* was listing the prices quoted by unofficial London traders. In some cases these traders were motivated by the opportunities to arbitrage price differences between regional and London markets, known as “shunting”,[42] and the appearance of quotes for firms in more than one market may have reflected the extent of these opportunities. The change in results using this new dependent variable therefore suggests that the purpose of recruiting aristocrats was specifically to support the process of official admission to the stock exchange, rather than to offload stock to speculative dealers based in London or elsewhere.

Table 1 about here

In contrast to Lords other potential explanatory variables were consistently insignificant.[43] Patents featured strongly in many prospectuses (44 out of 73; table 1), but as the evidence suggests these did not influence whether or not a firm applied for a London listing. All 14 tyre-producing firms which were listed with quotes in the *Financial Times* in January 1897 were quoted in London, in contrast for example to tube firms, which had only 1 out of 12 firms quoted in London (with the remainder in Birmingham),[44] but there was no corresponding relationship between type of product and the formal application for listing. Firms issuing different types of capital, preference shares and debentures, were not in the general case associated with admission to the London market. Indeed regional markets appeared to offer at least as much support for preference issues. For example on 2nd January 1897 the *Financial Times* listed 4 firms within the cycle sub-sector with preference shares quoted in London but 7 quoted in Birmingham.[45] Head office location was also insignificantly related to London listing applications. Another way of interpreting these results is that for industrial firms, regardless of asset type, production activity, or class of capital required, the provincial stock markets offered suitable institutional support.

The core hypothesis therefore remains, that the use of lords reflected linkages between industrialists and social networks, which, being more closely orientated to London, were potentially larger in scale and scope. In Table 1 panel C, the effects of the size of equity issues are contrasted. The results show that the average issue size was significantly larger for firms with Lords on the board and for firms that applied for London listings. Given the larger pools of capital available in London, these scale effects are unsurprising. Accessing London provided the opportunity to sell shares not just to a wider public, but also to larger and more socially elevated investors. These possibilities are explored further in the case study evidence presented below.

Share price behaviour

To contextualise the econometric and case study evidence, it is necessary to examine further the context of the share market, specifically so that any association between promotion methods and market conditions can be assessed. To identify the 'hot' and 'cold' phases of the promotions market, the number of firms floated per month is plotted in Figure 1 using our sample of 73 firms. In the finance literature, 'hot' issue markets have been characterised as periods of relatively high volumes and where there is correlation between current levels of IPO initial returns and increases in future IPO volumes.[46] Given our relatively small sample size, we followed the first approach and computed a three-month moving average for the share issues in our sample and defined 'hot' months as those where the number of new issues was in the top quartile. These calculations showed that apart from a minor boom in June/July1893, all 'hot' months fell in the period March 1896-April 1897 inclusive.[47]

Figure 1 about here

Figure 2 about here

To examine the state of the market further, figure 2 shows the pattern of share price movements, using an equally weighted market index of share price quotations for cycle and related firms. As figure 2 shows, shares in cycle firms did not appreciate significantly until the boom of spring 1896. In the pre boom period relatively few new firms were floated and these did not use aristocratic directors. Such firms were listed on regional stock markets, which included Dublin. For example, shares in the Grappler Pneumatic Tyre Company were issued on the Dublin market in May 1893.[48] Taken together, the pattern in figures 1 and 2 suggests that the hot market that commenced around March 1896 was over by April 1897.

By this time all firms were suffering the consequences of oversupply in the product market. The problem was not just that too many British firms had been floated, but that the market was now also flooded with American imports. Vernon Pugh, the Managing Director of Rudge Whitworth Limited, announced 25% price reductions on its cycles, based on its capacity to deliver increased output, but also reflecting the increased saturation of the cycle market. At Easter 1897 stories had circulated of overstocking and inevitable price cuts. Press commentators agreed that the days of inflated cycle prices were numbered. 'Profits', according to one, 'based in the prospectus on large sales and high prices, will be difficult to realise in the disgracefully over-capitalised concerns'.[49]

In summary, wider market trends explain the transition from hot to cold market conditions for new share issues in the first half of 1897. They also provide a possible explanation of the secular decline in share prices after March 1897. Moreover, they tend to undermine the view that the hot market was a function of the overpricing of shares, particularly those of Dunlop, at the height of the boom in May

1896. This issue is examined in more detail in the case study analysis of Dunlop and other leading flotations that now follows.

Case study evidence

The case study evidence concentrates first on accessing the London capital market, concentrating on Dunlop and other leading cases that utilised aristocratic connections. Second, these are contrasted with cases where firms accessed London but without utilising aristocrats. A third, further contrast is then made with regional floats and networks and the reasons why they were preferred in some cases. Fourth, this leads on to cases where firms accessed both London and regional networks simultaneously, utilising aristocrats and other groups of network influencers, exemplified by Lawson, and his ambition to monopolise the sector. Finally, further cases illustrate how these groups, notably society officials, politicians and military leaders complemented the involvement of aristocratic directors. Examining these contrasts allows further exploration of the sufficient and necessary conditions for accessing the London capital market

Figure 3 about here

As the largest new issue, Dunlop, whose float on the London market, prominently featuring aristocratic directors, made Hooley's name as a financier, provides the logical starting point for analysing the key features of the cycle boom. Figure 3 shows share index values for the Pneumatic Tyre Company (PTC) and the post flotation successor company to PTC, the Dunlop Pneumatic Tyre Company (DPTC) compared to the index for the sector as a whole. The Dunlop floatation prompted the sharp rise in the index in April/May 1896, which coincided with Hooley's purchase of PTC and its reflotation a couple of weeks later as the DPTC. The spike in Dunlop shares in May 1896 suggests that, in common with previous interpretations of the episode, aristocrats were a convenient method of overinflating the shares. It is certainly true that Hooley recognised the need for publicity, as his memoirs stressed, and he saw aristocratic directors as a means to this end.[50] Contemporaries and subsequent histories suggested that Hooley performed a stroke of genius in buying PTC for £3m and selling it for £5m only a few weeks later.[51]

However, this version of events is only a part of the story. PTC's profits had grown rapidly at an annual equivalent rate of 133.58% between 1890 and 1896.[52] In the same period, the industry growth rate was around 13%.[53] Even so, the PTC share price was relatively static (figure 3). PTC shares were quoted on the Dublin market where they were thinly traded relative to London, and where shareholders came to expect profits to be paid out as dividends.[54] The asset base of the company was, as a consequence, expanded in response to increased demand for its products by new share issues, rather than by reinvested profits. The high dividend pay-out and dilution through new issues explain why there was no significant long term growth in share value prior to 1896. The proceeds of these issues were included in PTC 'profits' as recorded in the Dunlop prospectus. Even so PTC and DPTC seem to have been fairly priced by Hooley.[55] Stripping out share issue proceeds, it can be observed that Hooley purchased the PTC at a valuation of 13.64 times net earnings. Interim results were released just ahead of the DPTC issue showing an annualised equivalent increase of 68.29% on the last full year's profits to 1895. Bearing in mind that of the £5m total issue value for DPTC, £1m was in debentures, the theoretical value of post debenture interest profits, factoring the increase in earnings and using the PTC multiple, was around £4.5m, whereas Hooley sold the company for only £4m net of debentures.[56] Not only that, but contemporary sources suggested that the shares were oversubscribed by between 8 and 15 times.[57]

Hooley, it seemed, had under-priced the issue by a substantial margin. Such an outcome was surprising in view of the triumphal fanfare of publicity that greeted the float. Aristocratic directors had indeed assisted Hooley in creating positive publicity, but were not in themselves sufficient for Hooley to feel confident enough to price the issue in line with the growth in earnings. Indeed when full year figures became available, they proved that Hooley's apparently confident extrapolation of the first five months results in the prospectus had also been an underestimate. The accounts to 31st March 1897 were issued on 8th July 1897. They showed a profit of £592,618 compared to an equivalent figure of £361,864 for the previous 12 months, as implied by the figures supplied in the prospectus, representing a 63.7% increase.[58]

So why did Hooley under-price the issue, apparently by a substantial margin? For established London market operators, issues could be readily placed through social networks or they could take advantage of underwriting services that had been recently developed by financiers like H Osborne O'Hagan.[59] As an outsider, Hooley did not have access to the institutional contacts required to avoid risk in such fashion. He therefore also partially covered his position by taking shares in the flotation amounting to 33,333 in each class of preference, ordinary and deferred shares, with his associates taking similar numbers.[60]

Aristocratic directors no doubt helped underpin share values, in conjunction with these hedging strategies, but Hooley had further reasons for employing them. The Earl De la Warr[61] was the conduit through whom other aristocrats were recruited and Hooley was able to satisfy his own narcissism and gain access to new social circles and gain status. For this reason, Hooley's relationship with De la Warr was long-term, rather than purely for the purpose of being a name on the Dunlop prospectus.[62] A specialist trade magazine described De le Warr as young, energetic and 'go ahead',[63] and he remained as Chairman of the board at Dunlop for over a year after the issue before stepping down at the first annual general meeting in July 1897 in favour of Harvey Du Cros, but continued to serve on the board, as did the Duke of Somerset.[64]

The longer run behaviour of the DPTC share price also suggests that the role of the aristocratic directors went beyond mere inflation of the issue price. Although Dunlop did peak in May 1896, immediately after its flotation, it is noteworthy in figures 2 and 3 that the index generally remained high until March 1897, and that Dunlop shares did not begin a secular trend downwards until June 1897, over a year after the original flotation. De la Warr strongly denied that his role was purely cosmetic in response to allegations presented by Hooley in court.[65] Indeed it was only after Hooley's bankruptcy in 1898 that recriminations began, with Hooley noting that: 'the immediate consequence…was that all my aristocratic friends deserted me'. He also pointed out that '…my retirement from London made a tremendous difference to me financially. The hundred and one different schemes in which I had been interested naturally had to be dropped…'[66] The allegations that followed, of bribery, fabrication of evidence and the evident superficiality of the role of the aristocrats reflected the breakdown of relationships and have coloured the historiography of the bicycle boom since.

This is not to say that Hooley was not an unscrupulous operator. Another tactic he favoured in some circumstances, again by way of hedging against short sellers, was the 'bear squeeze'. In smaller issues that were likely to be undersubscribed and thinly traded, his methods did not necessarily depend on aristocrats and instead involved cornering the market in shares such that speculators committed to shorting the issue could only fulfil their orders by paying a monopoly price. Hooley used this approach in the Humber Portugal flotation of 1896, so that he was able to extract £13 1/2 per share from bear traders who had attempted to short the partly called shares at their opening premium of ¼, threatening them with bankruptcy and making a personal profit of £32,000.[67] Another leading case was the Bagot Tyre Company, where similar methods were used.[68] In cases where relatively small industrial companies were floated, then, for the same reason that aristocratic directors were recruited to facilitate market access, the bear squeeze offered a potential insurance mechanism for otherwise risky floats without access to underwriting and institutional support.

Hooley's motives for using aristocrats were also revealed by cases outside the cycle and related industries sector. Hooley's introduction to a scheme to purchase the Chinese national debt for £16m came via Sir Robert Hart, who already had strong connections in that country. The China deal represented an attempt by Hooley to penetrate the world of high finance, and it is noteworthy that pressure on the Chinese government from Barings and Rothschilds, who described Hooley as 'nothing better than a company promoter of low standing', was sufficient to scupper the deal.[69] These incidents indicate why Hooley and others might have sought alliances with aristocrats as a means of penetrating otherwise closed financial networks.

Other contemporary promoters operating outside the cycle sector used similar methods to access the London financial network. Horatio Bottomley and Whitaker Wright,[70] promoted fewer but typically larger firms than those promoted by Hooley and Lawson, but again their business model involved the use of aristocratic directors.

However, none of these firms were domestic industrial issues, and involved publishing and overseas ventures, principally in Australasia.[71] Bottomley's new publishing combine, Kegan, Paul, Trench, and Trubner, did not have direct aristocratic representation. Even so, the board was well populated with bankers with connections to junior branches of the aristocracy, holding official London government positions or with strong political connections.[72] In this case, explicit aristocratic representation would not have added value beyond the connections of the elite directors already in place.

Notwithstanding the apparent value of aristocrats, there was a second group of cycle boom cases where firms secured London listings without them. Their success was, however, down to other pre-existing forms of social connection to London networks. Examples included Claremont Cycle, whose board included Albert King, Colonial Merchant of Aldermanbury London) and New Seddon Pneumatic Tyre, where a large block of shares was reserved for the London and Scottish Agency Ltd.[73] Cycle Industries Corporation, a venture capital fund specialising in conversions of existing firms and offering advice on patent law recruited a board consisting of London based directors, including a banker, of mostly overseas firms.[74] The Britannia Motor Carriage Company applied for a London listing without aristocratic representation, but was in any case located in London.[75] Two other firms, the Elswick Cycles Company and Ixion Pneumatic Tyre Company were connected through joint ownership to firms that were already quoted in London. Ixion was purchased by Vickers as part of its acquisition of Maxim Nordenfelt, and was also located in London.[76] For these firms access to London finance could be secured via existing connections without the need for aristocratic directors.

A similar utilisation of pre-existing networks, based on regional structures, is discernible in a third group of cycle and related industry floats, whose characteristics influenced whether Lords were used or not. These were are well illustrated by the case of Raleigh, where the influence of local financial networks resulted in a strong pull away from London. Hooley and Frank Bowden, the Chairman and main shareholder of Raleigh, were 'mutual friends'[77] and Bowden may have found him a helpful contact when he decided to restructure Raleigh using a share issue in March 1896. Hooley deemed aristocrats unnecessary, and the reason offered was revealing. Giving evidence to the High Court in 1898, Hooley commented that he did not recall payments to directors, as they were local men and 'not quite so expensive as London directors'.[78] Not using high profile directors had subsequent advantages. Transactions involving Hooley's payments to directors were scrutinised in detail for most of his floats, but Raleigh attracted no such attention during these hearings.

In the meantime, Bowden needed capital to expand production, but otherwise distrusted outside shareholders. He issued the minimum number of shares to the public required under stock exchange listing rules and after the issue purchased as many as he could in the open market, as those he regarded as 'speculators' sold out.[79] In contrast, Bowden regarded local shareholders as 'investors' and appreciated that they were suspicious of Hooley and London speculators.[80] Consequently, Hooley was not referred to in the prospectus or listing application, and the profit offered to him on the transaction was small.[81] Notwithstanding the application for a special settlement with the LSE, Raleigh shares were subsequently quoted in Birmingham, but not London. Raleigh also used a local bank, Robinson's Nottinghamshire Bank, in contrast to the more typical new issue which utilised national banks and their associated branch structure.[82] So, although London provided short-term liquidity for the Raleigh issue, regional capital was preferred, and was indeed sufficient for Bowden's purposes over the longer run.

A further example of the prevalence of regional markets over London was the float of the Endurance Tube and Engineering Company. It had attempted to apply for a London listing in May 1896, at the height of the boom, but without listing aristocrats on its board. The issue failed. A subsequent issue, again without aristocrats, led to a successful listing on the Birmingham stock exchange. Notably, the board of Endurance consisted entirely of directors of other Birmingham connected cycle firms.[83]

A possible explanation for the behaviour of Raleigh and Endurance was that local investors were better informed about business prospects and offered access to regional social networks. Certainly this was the case in sectors like banking and railways, which gave strong impetus to the emergence of regional stock markets after 1870.[84] Was this also true, however, for other growth sectors later in the nineteenth century?

In view of the evident barrier to regional firms accessing London finance implied by the need to use elite directors, it is also worth exploring therefore whether London and regional capital markets had complementary features offered considering a fourth group of cases that sought finance from both. A leading example, was the British Motor Syndicate (BMS), whose scale and complexity is explained by Lawson's objective of monopolising the sector. Substantively launched in November 1896, it was based on a new cluster of tyre, cycle and motor vehicle firms located in the West Midlands. At first sight, the syndicate appeared to have considerable similarity with the Hooley floats. Lawson has been commonly compared with Hooley, and like Hooley also used Lords as directors, as noted in the prior literature.[85]

Aristocrats on the boards of firms associated with Lawson's network included Lord Norreys and Prince Ranjitsinhji on the Board of the BMS and in the subsidiary firms the Lords Winchilsea (New Beeston Cycle), Hawke (Humber Portugal) and Verulam (Accles).[86]

However, these individuals were recruited more for their apparent celebrity status and network connections than their aristocratic pedigree. Norreys was President of the Road and Path Cycling Association and Ranjitsinhji a Cambridge student and famous cricketer.[87] Winchilsea, a politician and agricultural lobbyist, founded the London to Brighton car race and was responsible for symbolically tearing up the red warning flag at a dinner at the Metropole Hotel in Brighton following the 'Emancipation Day' run;[88] an event also attended by Ranjitsinhji. Other famous individuals listed as directors within the BMS combine included J.J. Henry Sturmey, cycling publicist and founder of the Cycling Touring Club, Gottlieb Daimler (Daimler), the inventor of the petrol engine, H.H Griffin, secretary of the National Cyclists Union (Beeston Tyre Rim Co. Ltd) and the Hon. Evelyn Ellis (Daimler, Great Horseless and Accles [trustee of debentures], who attracted great publicity as the first person in England to drive a motor car.[89] In these respects, Lawson's network was already broader than Hooley's, comprising aristocratic but other well connected individuals who could court publicity and generate significant lobbying power.

Lawson's ambition for the syndicate also meant accessing and controlling technical expertise. His network went therefore notably also included inventors and patent holders. These included the consulting engineer Frederick R. Simms and also influential individuals in associated industries, for example, H.J. Mulliner and Thomas Robinson of the Brougham and Dunlop carriage-making firm were on the boards of BMS production divisions (London Electric Cab and Great Horseless Carriage respectively).[90]

A final feature of Lawson's BMS network was the exploitation of political connections. Important names referred to in the prospectus of New Beeston Cycle were brothers Arthur and Joseph Chamberlain. The latter was one of the foremost politicians of the time, in Birmingham and nationally and the former a prominent Birmingham businessman.[91] The brothers were also active investors in Quinton Cycle.[92] Lawson had formed New Beeston to acquire Quinton[93] and the Chamberlain brothers were listed as prominent Quinton shareholders, and by virtue of which, it was implied, endorsed the reputation of the New Beeston. Such was the interpretation of a correspondent to *The Times,* who pointed out that such disclosure was without the approval of the individuals involved. Engineers and patent holders Holt and Beaumont objected to the BMS prospectus on similar grounds.[94]

Lawson's motive in exploiting such a diverse network was, in part, to generate positive publicity, particularly for the main float of the syndicate in November 1896. The BMS float attracted a barrage of criticism from the financial press, which undermined the issue.[95] Press comments were scathing about the claimed value of intangibles and lack of supporting financial information.[96] It is certainly true that the level of detail was far less than in Hooley's Raleigh and DPTC floats.[97]

Much more important, however, was Lawson's stated intention to monopolise the nascent motor vehicle industry. The BMS was similar to a holding company, and had the objective of holding patents and collecting royalties from associated production divisions and third party licensees.[98] Lawson's strategy therefore went beyond merely accessing the London market and also attempted to draw in regional ownership networks. Lawson had already adopted the regional network model with his involvement in the pre boom Humber and Beeston companies[99] and the absorption of Quinton with the reputation and connections of the Chamberlains suited his purpose ideally. Aristocrats, then, were useful to Lawson for reasons beyond access to London financial markets.

Bearing in mind the context of the end of the boom and a declining share market after March 1897 (figure 2), Lawson's launch of the Amalgamated Pneumatic Tyre Company (APTC) in July 1897 offers a case study of how aristocrats remained important assets outside of 'hot' issue markets. He formed the APTC as a merger of several firms, with the combination offered to London investors for £1.3m of new capital. The Earl De la Warr, still also a director of DPTC, headed the list. Although Lawson opted for a London listing, his motive in using De la Warr was not simply to access the market as had occurred with previous issues. Apart from De la Warr, the remaining directors were non-aristocratic incumbents of the merged firms. As with BMS, the purpose of the APTC was to dominate the tyre industry. The firm was described as the 'sister company' to Dunlop and its strategy involved sharing the use of the patents to put an end to fierce competition and litigation.[100] The new firm was not a success, and along with other cycle and tyre firms, experienced a slump in its fortunes in the latter part of 1897.[101] In summary, as APTC and BMS illustrate, unlike Hooley, Lawson's more ambitious objective of product market domination required promotional and financial networks that went beyond aristocratic elites, involving other groups of influential individuals in society, politics and the military. Using a final group of cases, it therefore worth examining the role of similar connections, beyond the Lawson network.

The absorption of socially connected individuals at important nodes of the cycling network was commonly used in other cycle and related promotions. These directors were sometimes well known, for example Warington Baden-Powell, a leading barrister and naval adventurer with celebrity status[102] was a director of New Premier Cycle Company. Many others were well connected in cycling networks and their associated channels of publicity; examples included: William Henry Herbert, President of the Cycle Manufacturers Association (New Premier), John McKnight (Turner Pneumatic Tyre), Secretary of the Irish Cyclists Association, and Sydney Lee, editor of Cycle Trade Journal (Truffault).[103]

Political connections were a similarly important feature of Lawson's syndicate model, as illustrated by the Chamberlain example, but were less commonly used in other promotions. Members of parliament were directors of a few firms, for example Star Cycle (C.E. Shaw M.P.), Rudge Whitworth and Rover Cycle (Sir Frederick Dixon-Hartland MP).[104] Cases of firms with politically connected directors featured in specific networks for specific reasons. William Bromley-Davenport MP, who was a director of Elswick Cycles Company and the New Jointless Rim Company, also had a distinguished military career. The Elswick board included two further military directors (the Chairman, Captain Andrew Noble and Colonel Hans Hamilton), which was perhaps unsurprising. Noble was previously the managing director of Lord Armstrong's armaments factory at Elswick, Newcastle.[105] As a consequence perhaps, the Elswick cycle firm did not need to go further and recruit aristocrats to secure access to London capital markets.

Other firms' prospectuses featured military connected directors, for example New Premier (Warington Baden Powell and Col. C.E. Macdonald), and Anglo Swedish (Cols. Cox and Fred. Hill),[106] and in several other cases they served alongside other directors who were aristocrats. Examples included Swift Cycle (Lord Randolph Churchill and Major Walter Segreave), Howe Cycle and Sewing (Sir

Edward Sullivan and Major General William Barwell–Barwell), Pneumatic Tube Machine (Earl of Norbury and Maj Gen Henderson), and Clipper Pneumatic Tyre (Lord Raglan and Lt Col. Seymour Blaydes).[107] The board of Bagot Pneumatic Tyre consisted entirely of aristocrats and military officers.[108] The general rule, as in the Lawson network, was that politicians and more especially military figures complemented aristocrats, although they were much less prevalent.

Conclusions

The grouping of cases in the above analysis reveals some useful comparisons (illustrated by a typical example). In general, the evidence supports the conclusion from the econometric analysis that, an aristocratic connection was vital for regional industrial firms seeking access to the London capital market (Dunlop). Exceptions to this rule demonstrated circumstances where such connections were necessarily immaterial: firms which had pre-existing alternative connections to London (Claremont) and cases where regional firms consciously turned away from London either as a result of a failed issue (Endurance) or as a means of retaining more local control (Raleigh). Other large floats had ambition for monopolising the product market and assembled large hybrid networks based in London and the regions, comprising aristocrats but also celebrities, inventors and technicians, politicians, military leaders (BMS), regardless of whether or not there was a 'hot' market for new issues (APTC). Unlike aristocrats, who were essential for accessing London in the absence of pre-existing alternatives, these other classes of individual were never sufficient for such purpose in their own right, but did play a complementary role (Swift).

These roles are also illustrated by the results of our econometric analysis, which reveals that aristocrats were specifically valued by promoters of larger firms seeking formal approval for official quotation or special settlement from the London Stock Exchange. Aristocratic directors dramatically improved the probability of success for firms seeking formal access to the London stock exchange. They were less important for firms with an informal London listing, suggesting that unofficial London quotes reported in the financial press for some regional firms mostly reflected telegraphic shunting operations by brokers. Taken together, the econometric results and case evidence provides strong support to the alternative interpretation: that aristocrats provided access to a financial network that would otherwise be closed to regional industrial firms.

The prevailing view hitherto, that aristocrats had no useful economic function, can be traced to the events and recriminations immediately after the boom and the collapse of Hooley's financial schemes. It is noteworthy that although Hooley faced the bankruptcy court two years after the Dunlop float, the Public Prosecutor took no further action to investigate misdemeanours identified by the Official Receiver. Lawson, by contrast, was convicted in 1904 and sentenced to a year's hard labour.[109] Undoubtedly many of Hooley's practices were questionable, and the real reason that he escaped prosecution was his threat to disclose further information about his dealings with members of the social elite.[110]

Although the cover up protected specific individuals, the role of aristocrats in general dominated the post boom narrative. In considering further legislation to prevent recurrence, Lord Russell, the incoming Lord Chief Justice commented that through recent scandals, the law of limited liability had been brought into disrepute. An important problem, according to Russell's analysis, was overcapitalisation, where an ‘excessive price is obtained from the outside investor’ assisted by the use of directors who provided only ‘worthless names and titles’, and ‘no knowledge of business’ or ‘strength of government’. Russell argued that directors should not receive payment from promoters and that this or similar conflicts of interest that might prevent their exclusive service to shareholders should be disclosed.[111]

The evidence in this paper suggests that Russell’s conclusion is worthy of some reinterpretation. The names and titles were worthless indeed as far as contributing to inflated share prices were concerned. Aristocrats appeared on boards in ‘cold’ as well as ‘hot’ issue markets and did so in some cases outside the notorious promotional syndicates of Hooley and Lawson. Comparing hot and cold issue markets also shows that Hooley’s valuation of Dunlop in May 1896 reflected industry realities, rather than an artificially inflated value based on the reputation of aristocratic directors. Market efficiency was thus not compromised by any systematic mispricing of the apparent value of aristocrats. The valuation ratios at the height of the boom were reasonable in the light of profits and profit growth at the time and were sustained for nearly a year after the floats. Subsequent overproduction was the problem rather than initial overvaluation. Even after the cycle bubble burst, aristocrats were used nonetheless in the BMS and APTC cases, to assist amalgamation with a view to monopolising the trade.

Aristocrats were valuable then, not just in terms of the correlation between social status and a sustainable share price, but as a means of accessing London based financial networks and promoting financial restructuring aimed at securing scale and market dominance. Moreover, the scope of their connections was certainly greater than suggested in the prior literature. In his detailed review of aristocratic directors, Harrison, notes that ‘only Albemarle and Norreys could claim any prior connection with the cycle and tyre trades'.[112] The evidence presented above shows that there were many other previously undocumented important dimensions, and that aristocrats were part of a deeper web, based in part on leading roles in nationally significant clubs and societies associated with the cycle and pneumatic tyre industries. Furthermore, they often enjoyed celebrity status beyond their mere title, or were in social networks that connected them to celebrities. Non-aristocratic celebrities were used for similar reasons. In addition to aristocrats and celebrities, promoters also recognised the value of including technical experts and patentees in their business networks. They provided promoters with access to further positive publicity, which in turn created a potentially positive response from investors.

Even in the Hooley floats, aristocrats played a positive role. Some of them, like De la Warr persisted in their managerial and entrepreneurial roles, and were more than merely 'front sheeters' or 'guinea pigs'. For a narcissistic personality like Hooley, the specific benefits included social status and access to high society. More importantly, because the promotional methods used in terms of information included and excluded in the prospectus helped undermine investors' perceptions, the effect was to further alienate the London market from industrial finance.[113]

The social barriers symptomatic of this estrangement were of wider significance for several reasons. First, they represented a potential problem for industrial firms large enough to aspire for a London listing. Social connections were a necessary condition before the bicycle boom, and made all the more difficult to achieve as a consequence of it. In the interim, the problem was not serious where issues were of modest scale and could be handled by regional stock exchanges. However, rising returns to scale in industrial firms, increases in capital requirements in regional clusters and limitations on adjacent pools of capital risked the emergence of a longer run constraint on economic growth. Second, the employment of aristocrats to gain access to a market can be seen in terms of a transaction cost of doing business, more easily payable in the absence of underwriting costs.

Until these alternatives were developed in the twentieth century, aristocratic directors offered a resource role in terms of access to capital and social networks, rather than an overly reputational role in terms of signalling to the market. Even so, further research could also examine the post IPO impact of aristocratic directors, in terms of short run mispricing and their effects on longer run financial performance in these industries, thereby complementing the wider literature on elite directors during this period. Further research is also necessary to explore the pattern of elite directors' relational functions beyond the bicycle and related industries, particularly as the equity gap began to open in the years before the Macmillan Report of 1931. Certainly, aristocrats continued to feature in promotional booms in the 1920s, even though as a social class, the aristocracy gained no real benefit from the earlier bicycle boom, either in terms of reputation, or in terms of finding a new role in industry. As a consequence, aristocrats were more likely to nurture financial connections than become industrialists. On the other hand, for motives not just of social status, but also for the purposes of accessing finance, industrialists continued to aspire to be aristocrats and to join their social networks.

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[7] Mizruchi and Stearns, "A Longitudinal Study"; Hillman et al. "Board Composition and Stakeholder Performance."

[8] Brewing and the peerage ("Beerage"); see Acheson, et al., "Happy Hour Followed by Hangover", 741, 744; Guinness float by Barings 1886, Cottrell, *Industrial Finance*, 169)

[9] Fjesme, et al. "The Vicar, the Widow", Lavington, *The English Capital Market*, 208.

[10] Burhop et al. "Regulating IPOs."

[11] Grossman, and Imai, "Taking the Lord's Name in Vain."

[12] Kennedy, *Industrial Structure;* Armstrong, "The Rise and Fall of the Company Promoter."

[13] These critics included Gilbert and Sullivan, as parodied in Act I of their operetta, *The Gondoliers:* "Guinea Pig" directors drew their fees in Guineas, but provided no tangible return, see Glinert, *The Savoy Operas.* See also Gilbert's *Utopia Limited* cited in Hannah, *The rise of the corporate economy*.

[14] Hannah, "Pioneering Modern Corporate Governance", 669-670.

[15] Megginson and Weiss, "Venture Capitalist Certification"; Michaely, and Shaw, "Does the Choice of Auditor Convey Quality in an Initial Public Offering"? Carter, and Manaster, "Initial Public Offerings".

[16] Gulati, and Higgins, "Which Ties Matter When?" Higgins, and Gulati, "Stacking the Deck."

[17] Fan, et al. "Politically Connected CEOs"; Cheung et al., "Guanxi, Political Connections."

[18] Huse, "Accountability and Creating Accountability".

[19] Rutterford "Propositions Put Forward by Quite Honest Men."

[20] Fich and Shivdasani, "Financial Fraud."

[21] Kennedy, "Notes on Economic Efficiency."

[22] Braggion and Moore, "The Economic Benefits of Political Connections."

[23] Cheffins, Koustas, and Chambers, "Ownership Dispersion."

[24] Armstrong, "The Rise and Fall of the Company Promoter."

[25] Robb, *White-collar crime in modern England,* 38, 125, 200. The legal ruling (*Re City Equitable Fire Insurance Co* [1925] Ch 407) that followed the Lee Bevan fraud, for the first time suggested directors responsibilities could not be limited to those of mere nominees.

[26] Kynaston, *City of London*, 119.

[27] Campbell et al, "Rise and Decline"; Newton, "The Birth of Joint Stock Banking"; Thomas, *Provincial stock exchanges*; Foreman Peck and Hannah, "Some Consequences"; Dimson, Marsh and Staunton, *Credit Suisse.*

[28] Robb, *White-collar crime in modern England,* 114-115.

[29] Flotations see Harrison, "Joint-stock Company Flotation"; wider significance see Harrison, "The Competitiveness of the British Cycle Industry"; role of leading company, Dunlop, see Jones, "The Growth and Performance".

[30] Jones, "The Growth and Performance."

[31] Lewchuk, "The Return to Capital" Michie, "Options, Concessions, Syndicates".

[32] Harrison, "F. Hopper and Co.".

[33] Lewchuk, "The Return to Capital". For a detailed breakdown, see table 1, in Harrison, "Joint-stock Company Flotation".

[34] Calculated from tables I and III, in Harrison, "Joint-stock Company Flotation".

[35] Payments ranged from £1,000 to £25,000. Harrison, "Joint-stock Company Flotation", 174-175.

[36] Only a small number of firms were involved in producing motor vehicles relative to cycle producers at this time. The major boom in motor vehicle production occurred in the early 1900s. See Lewchuk. "The Return to Capital".

[37] The most frequent and detailed listings were published in: *Birmingham Daily Post*, *Cycling*, *Freemans*, *Glasgow Herald*, *Liverpool Mercury*, *Pall Mall Gazette* and from 1897, a more comprehensive list in the *Financial Times*. LSE Report Books are held at the Guildhall library, London.

[38] 'Lord' refers to a firm with a board member bearing any aristocratic title as listed in Debrett's *Peerage of the United Kingdom*, ie Duke, Marquess, Earl, Viscount, Baron; also including holders of knighthoods.

[39] Using the *exlogistic* command in the Stata statistical program. For an overview, see: UCLA, Statistical Consulting Group.

[40] To facilitate interpretation, Panel B reports odds ratios rather than coefficients. These can be interpreted as the probability of the outcome in the presence of the variable of interest, relative to its absence.

[41] It should also be noted that the *Financial Times* only began the practice of quoting share prices in columns headed London, Birmingham and Dublin from January 1897 onwards, thereby introducing an unavoidable time lag between the flotation of the typical sample firm and its appearance in the *Financial Times* listings.

[42] Campbell et al, "The rise and decline", 7.

[43] Further tests, controlling for year fixed effects, had no impact on the results and are not reported.

[44] *Financial Times*, 2nd Jan. 1897.

[45] *Financial Times,* 2nd Jan. 1897.

[46] These approaches are followed respectively by Loughran and Ritter, "The New Issues Puzzle," and Lowry and Schwert, "IPO market cycles." For an example of the three month moving average method see: Helwege, and Liang, "Initial public offerings in hot and cold markets."

[47] We also calculated an index initial returns weighted by capitalisation for the month of the IPO. These returns were at their highest for the few firms that floated ahead of the hot period as defined above. Returns persisted at a high level for 1896 and fell to modest levels in the first three months of 1897.

[48] *Freeman's Journal,* May 29, 1893.

[49] "The Cycle Trade", *Daily News*, 9 July 1897.

[50] Hooley, *Confessions*.

[51] After the Dunlop deal, Hooley was described as the "Napoleon of Finance, at whose word capital could be created by the million" (*Economist*, 30 July, 1898, 1113).

[52] Calculated from historic profit data as disclosed in the DTPC prospectus (*Times Book of Prospectuses*, Jan – Jun, 1896, 168-171)

[53] Estimated from Millward, "The Cycle Industry in Birmingham, 1890-1920," tables 1and 2, 166.

[54] For example the 200% dividend paid after the announcement of the 1893 results (*Freeman's* 15th November, 1893).

[55] DTPC prospectus (*Times Book of Prospectuses*, Jan-Jun, 1896, 168-171)

[56] Calculated from DTPC prospectus (*Times Book of Prospectuses*, 11th May, 1896, 168-171)

[57] "A record rush for shares," *North-Eastern Daily Gazette* May 14, 1896.

[58] CHC, PA606, Dunlop Pneumatic Tyre Co, Ltd, *Directors Report and Statement of Accounts* 31st March 1897. The accounts reported profits for the 11 months and 5 days to 31st March; figures are adjusted pro rata.

[59] Davis and Gallman, *Evolving Financial Markets*, 173-174.

[60] *Times Book of Prospectuses*, Jan-Jun, 1896, 168-171. Martin Diedrich Rucker took the same number, and Robert Watson and Charles Wisdom Hely, who acted as trustees for the debentures, took 33,333 and 66,666 respectively. Harvey and Arthur Du Cros taking each taking 66,666 of each class. Of the controlling deferred shares totalling £2m, this group thus controlled 16.67% of the equity issued

[61] Gilbert George Reginald Sackville, 8th Earl De La Warr (1869–1915).

[62] Anon. *The Hooley Book*, 54-55.

[63] *Cycling,* May 30, 1896, 345; Issue 280.

[64] CHC, PA606, Dunlop Pneumatic Tyre Co, Ltd, *Directors Report and Statement of Accounts* 31st March 1897, 31st March 1898.

[65] For example one of the directors, the Earl of Crawford, was given responsibility of briefing journalists on Hooley's related activities *(Pall Mall Gazette*, Saturday, July 9, 1898); De la Warr described his role in overseeing allotments as "heavy" (*Times*, Aug. 13, 13).

[66] Hooley *Confessions*, 43, 170. De la Warr sold land to Hooley. After Hooley acquired the Papworth estate in Cambridgeshire he and De la Warr became close neighbours (Anon. *The Hooley Book*, 34; Hooley, *Confessions*, 63)

[67] Hooley *Confessions*, 74-79.

[68] "Rigs and Corners", *Economist*, 14 Aug. 1897, 1170

[69] Hooley, *Confessions*, p.125, and 118-125. Hart (1835-1911) was a senior diplomatic and trade representative with close connections to the Chinese government (King, "Sir Robert Hart, 1835-1911").

[70] Mainly in mining and gold fields; Davis and Gallman, *Evolving Financial Markets*, p.173. Hooley described Bottomley and Wright respectively as colleagues and acquaintances (Hooley, *Confessions*, 293, 241).

[71] Examples of firms promoted with aristocratic directors by Bottomley were the Hansard Publishing Union and the West Australian and New Zealand Market Trust; Wright promoted the London and Globe Finance Corporation. See respectively, *Financial Times*, 6th April, 1889, 24th July, 1897, Mouat, "Whitaker Wright", 136.

[72] For example Coleridge J Kennard was a former member of parliament, Deputy Lieutenant of London, and Justice of the Peace (Mosley, *Burke's Peerage*, vol.1, 1560).

[73] *Times Book of Prospectuses*, Beeston Pneumatic Tyre Company, 26th June, 1893, 68.

[74] *Times Book of Prospectuses*, The Cycle Industries Corporation, 13th May, 1896, 176. One of the firms it acquired, and which subsequently failed, was F. Hopper and Co.; Harrison, "F. Hopper and Co.", 4.

[75] At John Ward's carriage works, Tottenham Court Road, London (*Times Book of Prospectuses,* Jan-June 1896, p.200).

[76] The Ixion Tyre Company prospectus listed as directors Hiram S. Maxim, Albert Vickers and George G. Hunt of the Britannia Iron Works, London; *Times Book of Prospectuses*, 9th May, 1896, 159-160. *Pall Mall Gazette*, Friday, June 5, 1896.

[77] Lloyd Jones et al., *Personal capitalism*, 31

[78] "Mr Hooley's affairs", The Standard, 2nd August, 1896. *Investors Review*, 5th August, 160.

[79] GH Report Books, MS29797/11, Raleigh Cycle Co., 120; "Raleigh Cycle Company", *Nottingham Evening Post*, 16th October, 1900.

[80] Lloyd Jones et al., *Personal capitalism*, 16, 36-37.

[81] *Times Book of Prospectuses*, Raleigh Cycle Company, 7th March, 1896, 60; GH Report Books, MS29797/11, Raleigh Cycle Company, 120. The capital floated was £200,000 capital, the company having been sold to Hooley for £180,000 ("Hooley's affairs", *The Standard*, 2nd August, 1898.

[82] The most commonly used banks in our sample were Lloyds and London and Midland. Prospectuses typically referenced the London and Birmingham branch addresses of these banks. *Times Book of Prospectuses*, Raleigh Cycle Company, 7th March, 1896, 60; and *passim*.

[83] "Try Again", *Pall Mall Gazette*, 27th June 1896. *Times Book of Prospectuses*, The Endurance Tube and Engineering Company, 26th June, 1896, 338.

[84] Campbell et at, "The rise and decline of provincial stock markets"; railways see: Broadbridge, "The Sources of Railway Share Capital"; Campbell and Turner, "Dispelling the Myth of the Naive Investor"; Reed, "Railways and the Growth of the Capital Market"; regional joint stock banks, see: Acheson and Turner, "Investor Behaviour in a Nascent Capital Market", Newton, "The Birth of Joint-Stock Banking' Turner, "Wider Share Ownership?"

[85] Harrison, "Joint-stock Company Flotation"; Robb, *White collar crime*, 104-106.

[86] *Times Book of Prospectuses*, BMS, 30th November 1896, 284-285; New Beeston 16th June 1896, 294-295; Humber Portugal, 12th October, 1895, 173; Accles, 3rd June, 1896, 249.

[87] 'BMS, *Times Book of Prospectuses,* 30th November 1896, 284-285; Nicholson, *The Birth of the British Motor Car*, 466)

[88] So called in celebration of the removal of the warning red flag and lifting of the 4 m.p.h. speed limit (Richardson *British motor industry*, 16). Lawson's success in the event was referred to in the BMS prospectus, published shortly afterwards. *Times Book of Prospectuses*, BMS, 30th November 1896, 284-285.

[89] Death of Lord Winchilsea. *The Times*, Thursday, 8 September 1898, 6. Mr. Henry Sturmey *The Times*, Friday, 10th Jan. 1930, 14. (*Times Book of Prospectuses,*),

[90] British Motor Syndicate, *Times Book of Prospectuses,* Jul-Dec 1896, 30th November, 284-285; Richardson *The British Motor Industry*, 18)

[91] Jones, "Public pursuit or private profit", 240.

[92]; *Birmingham Daily Post,* 17th October, 1894.

[93] Purchased for cash £8 6s 8d per £5 share by the Beeston Syndicate, *Financial Times,* 5th May, 1896, 6.

[94] Smith Pinsent and Co., solicitors, 'New Beeston cycle company': 5, *Times*, 18th June, 1896, W. Worby Beaumont, *Morning Post*, 1st December, 7; Henry Holt, 'A disclaimer', *Financial Times*, 1st Dec, 1896, 4.

[95] Kynaston, *City of London*, 147

[96] "City notes". *Pall Mall Gazette,* 28th Nov. 1896; "British Motor Syndicate". *Economist,* 28th Nov. 1896, 1569

[97] *Times Book of Prospectuses*, Raleigh Cycle Company, 7th March, 1896, 60, and DPTC, 11th May, 1896, 163-170.

[98] The prospectus stated that objective of the syndicate was 'to obtain a complete monopoly…of all motor car patents deemed of any value', *Times Book of Prospectuses*, BMS, 30th November 1896, 285. On the inter-relationships between the Lawson companies, see Lewchuk, *"The Return to Capital",* 7.

[99] *Times Book of Prospectuses* Claremont Cycle Company, 17th June, 1896, 298; Beeston Pneumatic Tyre was an example of an early pre boom London float, promoted by Lawson, featuring aristocratic directors (Lord Henry Fitzgerald), patent holders/inventors (Thomas Humber) and also military (Lt Col. Chas Hill, JP, Coventry (*Times Book of Prospectuses*, Beeston Pneumatic Tyre Company, 26th June, 1893, 68-69).

[100] *The Standard*, 16th August, 1897; "Formation of a sister company to the renowned "Dunlop'", *The Standard*, 14th August, 1897. The combination consisted of the Beeston, Turner, Woodley, Scott's Standard pneumatic tyre companies.

[101] *Economist*, 4th January, 1899, 47.

[102] Jeal, *Baden Powell*, 20-21

[103] *Times Book of Prospectuses*, New Premier Cycle Company, 2nd July 1896, 1-3 Turner Pneumatic Tyre Co. 3rd June 1893, 57, Dunlop Truffault Cycle and Tube Manufacturing Company, 16th May, 1896, 187.

[104] *Times Book of Prospectuses,* Star Cycle Company, 14th August, 1896, 345, Rudge Whitworth, 1-5 November 1894, 77; Rover Cycle Company, 15th June, 1896, 290.

[105] *Times Book of Prospectuses*, The Elswick Cycle Company, 5th June 1896, 256-258; Conte-Helm, *Japan and the North East of England*, 26.

[106] *Times Book of Prospectuses*, New Premier Cycle Company, 2nd July 1896, 1-3; Anglo Swedish Steel Tube Company, 23rd November 1896, 267-268, ,

[107] *Times Book of Prospectuses*, Swift Cycle Company, 11th December, 1896, 217; Howe Cycle and Sewing Machine Company, 28th July, 1896, 113-115, Pneumatic Tube Machine Company, 3rd April, 1897, 140-142; Clipper Pneumatic Tyre Company, 15th March 1897, 103. On the Swift Cycle group of firms and Randolph Churchill, see Kimberley, *Coventry's motorcar heritage*.

[108] *Times Book of Prospectuses*, Bagot Pneumatic Tyre Company, 4th October, 1896: 201, listed the directors as the Earl of Aylesford, Lord Raglan, Col. Keyser, Lt Col. Blaydes and Capt. Bagot. A Frenchman, M. Ernest Cuenod, the Paris delegate of the Touring Club of France, was listed as due to join the board post floation.

[109] Taylor, *Boardroom Scandal*, 255.

[110] Anon., *The Hooley Book*, 150-152, cited several press commentators who drew this conclusion, for example in the *Daily Chronicle*, and *Freemans Journal*. A *Sheffield Independent* correspondent wrote: "Now, no august names will be endangered, and…all risk of further prosecutions arising out of awkward revelations is at an end", *ibid*, 152.

[111] *Times*, 10th November, 1898, 7.

112 Harrison, "Joint-stock Company Flotation", 174.

113 Kynaston, *The City of London*, notes several features of the problematic relationship between industry and the City that ensued from the Hooley and Lawson episodes, p.148.

Table 1. Predictors of London stock exchange listing applications

Panel A: Sample distribution

	No. of flotations	
Variable	**Yes**	**No**
London listing application	35	38
Lord on board	29	44
Patents under control	44	29
Tyre producer	15	58
Preference share	17	56
Debentures	15	58
London Head Office	41	32

Panel B: Exact logistic regression results

Variable	**Odds ratio**	**P-value**	
Lord on board	7.5422	0.0005	***
Patents under control	1.4635	0.6970	
Tyre producer	1.2167	1.0000	
Preference share	2.2144	0.3859	
Debentures	1.2128	1.0000	
London head office	1.0222	1.0000	
Chi-square		15.8771	***
Number of observations		73	

Dependent variable is a 1/0 dummy variable indicating whether a firm made a London listing application or not. Independent variables are 1/0 dummies according to the presence/absence of each characteristic. Reduced form models were also estimated, including only the 'Lord on board' variable and each of the other variables substituted in turn. In all models, only the 'Lord on board' variable was significant. Non-asymptotic p-values are computed from the exact conditional distributions.

Panel C: Issue size mean difference tests

	London listing	Non London listing	p-value
Average equity capital raised (£)	375,270	129,790	0.0331**

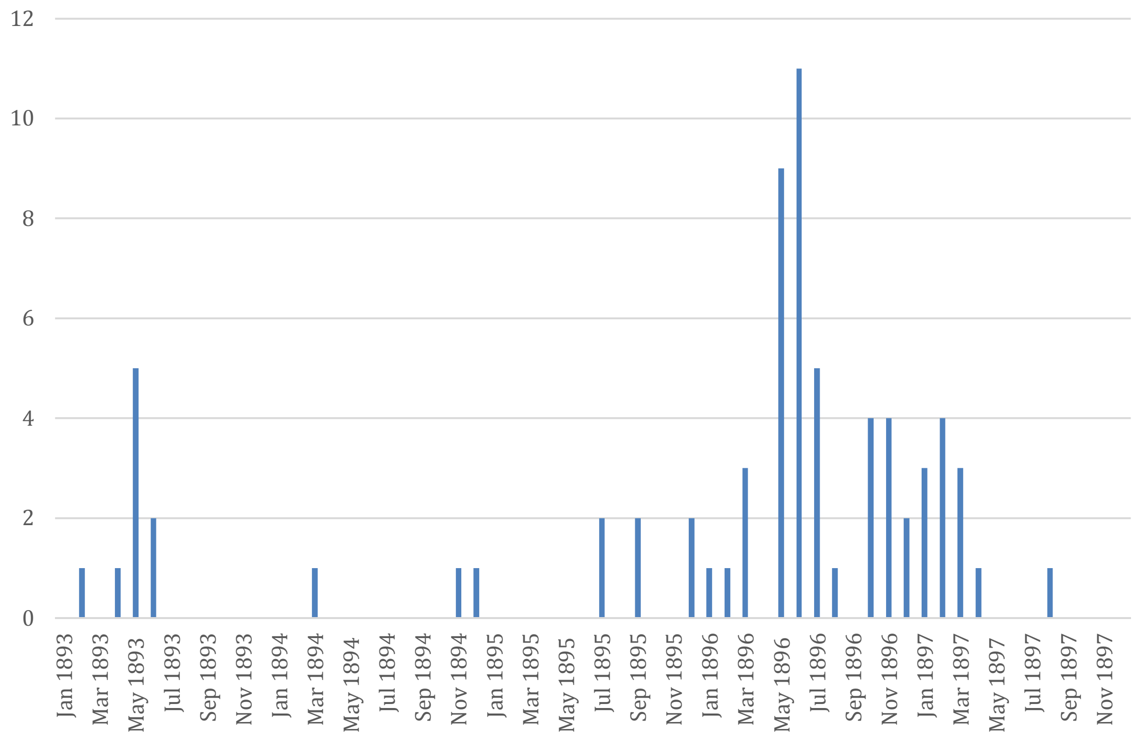
	Lord	No Lord	p-value
Average equity capital raised (£)	453,448	122.568	0.0232**

Number of observations: 73

*** Significant at the p< 0.01 level; ** Significant at the p<0.05 level

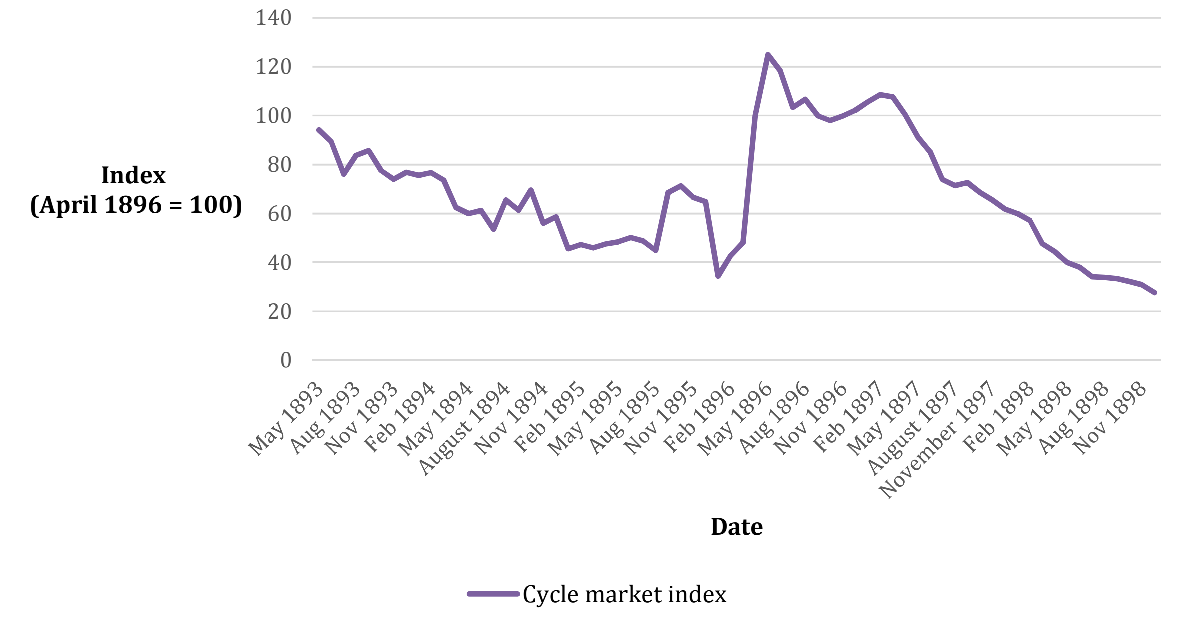
Sources: *The Times Books of Prospectuses, 1893-1897;* Guildhall Library, Records of the London Stock Exchange, Applications for listing, 1893-1897.

Figure 1: IPO volume 1893-1897



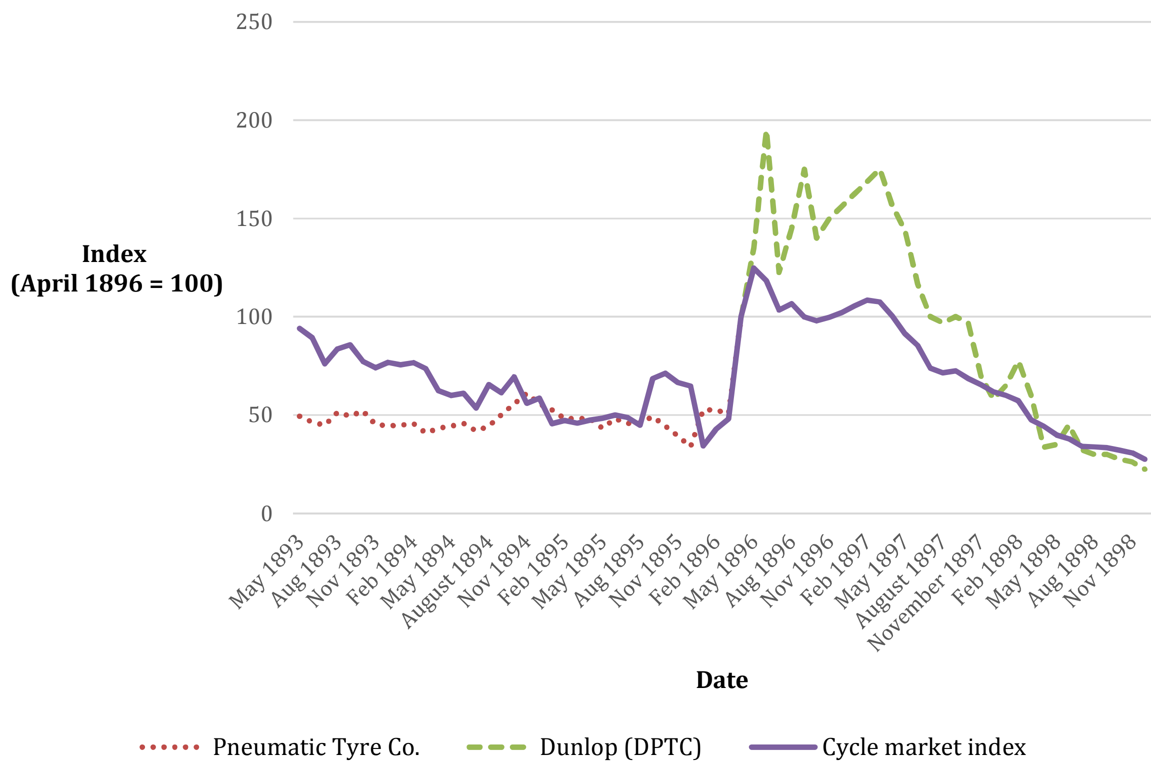
Source: Company prospectuses, Times Book of Prospectuses, Jan. 1893-Dec. 1897.

Figure 2: Cycle and related industries share price index, 1893-1898



Sources: Compiled using monthly observations from share listings in the *Financial Times*, *Birmingham Daily Post*, *Cycling*, *Freemans*, *Glasgow Herald*, *Liverpool Mercury* and *Pall Mall Gazette*. The market index includes all firms in the cycle, tyre and related industries with actively traded shares, ie those that were regularly quoted in in these publications (n=73; total observations 1459).

Figure 3: Dunlop share price index, 1893-1898



Sources: As figure 2.