

## Corporate Management in the Eighteenth Century in the Company of Commerce of Pernambuco and Paraíba

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**Abstract:** This study is based on the management model carried out by Companhia Geral de Comércio de Pernambuco e Paraíba — CGCPP (General Company of Commerce of Pernambuco and Paraíba), founded in 1759 by the government of the Marquis of Pombal, for the exclusive trade rights in Brazil between the kingdom of Portugal and the captaincies of Pernambuco and Paraíba. The results of this research revealed that CGCPP's management adopted policies and practices of governance structure similar to the current ones, focused on ethics and transparency, aiming at the security of shareholders and the well-being of Captaincies. This survey also brought to light that the monitoring of CGCPP's internal control system was carried out through accounting reports issued by its "Contadoria" (Accounting department), and were subject to systematic review by its Inspection of Accounts unit, whose the assignments in the Company were similar to those of an internal audit. The main objectives of this accounting review were to ensure the safety of internal controls of the CGCPP and to detect possible irregularities for immediate correction and adjustments, thus allowing the regular flow of operations of the Company.

**Key words:** accounting; governance; internal control; management; company of commerce

**JEL codes:** M410

### 1. Introduction

From the point of view of history, the role of management in companies has been a theme widely explored since ancient times, both in what concerns the private and the public sectors. It has been evidenced in the researches the management tools used and the focus on the concept of governance, with a view to responsible management, transparency, efficient and effective administration and the preponderance of ethics in accountability. At the corporate level, the security of internal controls, aimed at protecting shareholders, with the consequent prevention of possible errors and fraud in transactions, has been the main concern in what regards the efficiency

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and effectiveness of current management models.

This study deals with the management model and governance structure carried out by Companhia Geral de Comércio de Pernambuco e Paraiba — CGCPP, a joint stock company established in 1759 in the administration of the Marquis of Pombal, for exclusive trade between the captaincies Pernambuco and Paraiba of colonial Brazil and the kingdom of Portugal (Carreira, 1983), whose structural management elements showed striking similarities to the current prevailing corporate management practices, notably on the governance issue. Management of CGCPP's operational activities had as its main guidelines the promotion of trade between the kingdom of Portugal and its captaincies of Pernambuco and Paraiba, the protection for investors (stockholders) and the well-being for the colonial society (stakeholders).

In order to achieve the objectives of this work, this research was aimed at CGCPP's model of management and governance structure, based on the internal controls adopted for its operational and administrative activities, most particularly the accounting reports issued by its “Contadoria” (Accounting department). The policies, institutional norms and management procedures contained in the CGCPP's Economic Directory (rules for the economic government of the Company), in which the word “government” is frequently mentioned, referring to ethical and bias-free administration and fraud, were also studied. This work's objective is to offer contributions to the historiography of accounting and administration, evidencing the model and the form of the management systems used by CGCPP to administrate its operational activities and business and to achieve its goals.

This work was built through a case study, supported on the historical method, searching for evidence and knowledge about a specific company, and aiming to bring to light contents from primary sources related to the management system of its administrative and operational activities, which allows the deduction of their influences in current theories and management practices (Marconi & Lakatos, 2003). This methodology has provided relevant theoretical bases for research in managerial accounting (Luft, 2007).

## 2. Literature Review

### 2.1 Historical Aspects for CGCPP

The CGCPP was constituted for the exclusive trade rights in the captaincies of Pernambuco and Paraiba, Brazil, except for the innermost regions, where commerce remained free for all the kingdom of Portugal's traders (Lima & Sangster, 2012). It was set up as a joint-stock company, open to public subscription. Among the incentives to subscribe to its capital stock, special privileges of private judicial jurisdiction were also granted to future shareholders and members of its administration board, and it was emphasized that the exclusive forum of the conservative judge prevailed to any other in the kingdom of Portugal in relation to lawsuits against any member of the board of directors of the CGCPP.

The CGCPP's stock capital was composed of 3,400 shares, at a unit value of 400\$000 (four hundred thousand “reis”), totaling \$ 1,360,000 (one billion, three hundred and sixty million “reis”)<sup>1</sup> (Carreira, 1983; Junior, 2004). In addition to that stock capital, other assets were added so that the Company could start its activity. Therefore in Lisbon, the use of the warehouses that were located next to the wall of the Mint (*Casa da Moeda*) near the beach, were granted to the CGCPP, and the areas in front of these warehouses were reserved so that its

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<sup>1</sup> These amounts converted into Euros to the year of 1999 represent, approximately, a) unit value of the share: 9.000€; e b) amount of the capital stock: 30.000.000€. This monetary conversion was made using the criteria adopted by Vasconcelos (1999, p.11), and the laws issued by Finance Ministry of Portugal, as showed in the Appendix of this paper.

shipyards could be built. In Pernambuco, the use of Gold House (*Casa do Ouro*), its warehouses, and the part of the Navy that was most appropriate for the construction and repair of the vessels were also granted.

These concessions were considered essential for the preparation of the physical structures necessary for the accommodation of the CGCPP facilities, as well as for logistical support and navigation. The Portuguese crown also made available some of its own assets and properties for the Company's use. All of these assets were recorded in CGCPP's accounting bookkeeping as fixed assets, through the transfer of its ownership and jurisdiction.

The Bylaws of the Company determined that the minimum subscription would be ten shares, and the payment of which could be made in cash, also vessels could be used for the payment of all or part of the subscribed capital. The subscription of one share could be made by a single shareholder or in consortium with two or more interested parts (Dias, 2004; Junior, 2004). In case of the share subscription being paid with part of the value of a ship, the subscriber would have to be its sole owner (Marcos, 2008). It must be noted that, for payments with vessels, their corresponding monetary values should be estimated at the current market price, by specialized appraisers appointed in Lisbon, and only those vessels deemed useful for the CGCPP would be accepted. In Pernambuco, most of the subscribers of the Company's capital stock delivered entire vessels or part of them to pay for the acquired shares (Dias, 2004; Junior, 2004).

For the Company's ships safety and due to the many corsairs and pirates operating in the Atlantic, it was found necessary to organize sea convoys for the transport of goods between the kingdom of Portugal and its Captaincies. Considering that the CGCPP did not have warships available at the beginning of its activities, and the purchase or construction of vessels of this nature would certainly imply high financial costs, the monarch donated two war frigates to escort the Company's convoys, but he warned CGCPP that this donation would only take place at the initial moment of its operations, and no more (Carreira, 1983).

As a basis for the trading companies strategy defended by the Marquis of Pombal, was the geographic position of the Portuguese domains and the maritime lanes that surrounded these regions, which benefited Portugal as far as the development of a commercial project through navigation, being able to leverage the country and make it an economic power (Lara, 1981). This means that there were ample conditions to change Portugal's economic trajectory, taking it out of the difficult situation it was in, namely eliminating the dependence it had on trade with England (Maxwell, 1996). Resumption of trade in Europe, while strengthening the bases in America, could mean the beginning of an economic recovery process and gaining resources for new investments in the country, as well as other benefits for Portuguese society (Boxer, 2002).

The foundation of the CGCPP was based on three pillars, considered essential for the success of the this Company and the prosperity of the Portuguese economy: a) promotion of the Portuguese and colonial trade, which would increase the level and quality of manufacturing in Portugal; b) satisfactory remuneration for the shareholder's investment, through the attractive profits generated by the growth of trade; and c) the colonist's well-being (stakeholders), most especially those established in the captaincies of Pernambuco and Paraiba (Macedo, 1982; Junior, 2004). Considering these perspectives, taking advantage of the Portuguese merchant's commitment, the royal power's incentives enacted through the Pombal government, through a technical and professional qualification process having the Trading School as a mainstay, a management model was introduced to the CGCPP and a governance structure set up with the support of internal controls, especially double-entry accounting bookkeeping and the implementation of the accounting book's permanent revision process, very similar to a modern internal audit practices.

## 2.2 Governance Structure

The word governance shows several different definitions in business management treaties, often extending its meaning to new management concepts in a given range of economic activities. However, in the sphere of government, according to Costa (2014), “the understanding of this term continues appealing to the concepts of state and sovereignty ...”, giving us the notion that the state is at the citizen’s service. Also in private business activity, the word governance has been used referring to good management practices for the benefit of all those involved in a given project. In this case, the concept materializes itself in a specific expression: corporate governance (Monks & Minow, 1995).

The Brazilian Institute of Corporate Governance (IBGC) states that corporate governance is the system in which companies and other organizations are directed, monitored and encouraged, involving relationships between shareholders, the board of directors, board of executive officers, supervisory and control bodies and others interested parts. Note this definition’s broad level, demonstrating the necessary integration, involvement and participation of all the organizational components, within their specific levels of responsibility. In this context, the actions and good practices of corporate governance are carried out into a permanent search for strengthening the organization, growing its businesses, preservation of its economic value, optimization of the stockholders’ remuneration and the satisfaction of others (Andrade & Rossetti, 2009).

The complexity of organizations and the increasing market variables permanently require the refinement of existing models or the creation of new modes of governance, either by adopting new policies, rules and administrative procedures or by innovating processes and mechanisms of control (Andrade & Rossetti, 2009). Thus, new approaches to corporate governance emerge, such as Fontes Filho (2004), who proposed the following dichotomy in their practices: a) financial model — for shareholders or stockholders, with a focus on maximizing their wealth; and b) social responsibility — for the relevant public or the stakeholders.

As can be seen, the most widely used approaches to good corporate governance practices today highlight the agency theory, as proposed by Jensen & Meckling (1976), whose focus is on offering solutions to the impasses that may arise between the professional administrator and the capital owners, mainly due to the separation between shareholders and the corporation management (Esperança et al., 2011). This foundation of corporate governance is more appropriate in environments where the stock market is strong, and companies use this market as a significant source of finance (Rabelo & Silveira, 1999).

It should be emphasized that the second half of the eighteenth century’s historical environment was not yet a scenario for an active stock market, mainly in the territory where the CGCPP operated, where the known management forms had their roots in the administration of the Portuguese public business and in commercial enterprises, strongly influenced by the foreign traders and with few possibilities of corporate financing (Macedo, 1982; Falcon, 1993). However, in this period and even a little earlier, the use of the word “government” in the sense of effective management with a view to the patrimony, for the efficiency of laws, for the administration of justice and for the well-being of nationals had already been mentioned in history books and in the historical documents (Cardim, 2005).

In order to characterize the governance structure, based on the use of managerial accounting tools, it was verified the adoption of good management practices, already in the years 1747-1748, in the “Fabrica das Sedas of Portugal” (Silk Factory of Portugal), in the study carried out by Carvalho et al. (2007), and in the period of the Industrial Revolution (Garrison & Noreen, 1997). For Assis (2001, 2008), the term governance had already been used in the sixteenth century to qualify the captaincy’s municipal administration, but much more regarding the

members that composed the municipal management body in the captaincies, and in this sense she makes the following statement: “by governance it is understood that we mean the group of ‘pro-men’ who head the captaincy’s municipal administration”.

In view of the foregoing, and in order to study the governance structure carried out within the CGCPP, we sought to take into account the Company's structural characteristics, associated with the kingdom of Portugal's institutional arrangements that significantly affected its operations, which emphasized the decisive focus of the internal controls and the coordination process of CGCPP's Administrative and Operational Units (expression used in this whole text to designate the various sectors of internal controls implemented in the CGCPP). In this context, the concept of governance structure based on the idea of property control (Franks & Mayer, 1994, 1995) becomes more applicable to the development of this study. It is considered that the characteristics of the CGCPP already mentioned and its forms of strategic decisions determine its structure, and yet that same structure depends on its strategies and forms of management (Chandler, 1962).

### **3. The Case of CGCPP**

#### **3.1 Management and Governance Structure**

The CGCPP was a privately held corporation, in which the largest shareholders were traders who lived in Portugal. In spite of the State's non-financial participation in its capital, it still had a strong influence on the Company activities, through the royal laws and regulations that defined the Portuguese kingdom's judicial, economic and business life, which made it very similar to a “public-private partnership”, as assured by Lima & Sangster (2012). In spite of the constant emphasis on the Company's standards, the maximum decisions about its business rested exclusively with its main administrative body based in Lisbon. However, there always remained the possibility of interference from the king of Portugal, in order to solve impasses due to unresolved conflicts of interest within the corporate scope of the CGCPP. In this context, the Company's governance structure takes into account the strong State presence, under the aegis of royal sovereignty.

Other specific characteristics that gave singularity to the CGCPP are highlighted: a) exclusive supply market of the main products of its commercialization, coming from the captaincies of Pernambuco and Paraiba, Angola and Mine Coast and from the factories of Portugal; b) a large consumer market, exclusively in the captaincies of Pernambuco and Paraiba, including Rio de Janeiro, in case of sale of slaves; an intense trade of colonial products to Portugal and to foreign nations, mainly of sugar; c) management performed exclusively by shareholders, for whom the incentive rules was not relevant, in view of the management's own interest; c) exclusive judge for specific judicial matters of commercial nature, within the scope of the Company itself, with the aim to speeding decisions.

In this sense, looking at the property systems existing in the historical context of the second half of the eighteenth century, organized controls in the economy refer to the governance system adopted by corporations (Rabelo & Silveira, 1999), combining specific political and legal aspects of the time. It should be noted that the governance structure implemented in the CGCPP at that time of changes in management culture in Portugal was mainly focused on valuing accounting as an essential managerial tool, for which it was mandatory to adopt double-entry accounting bookkeeping for the whole Portuguese public administration and for the general trading companies.

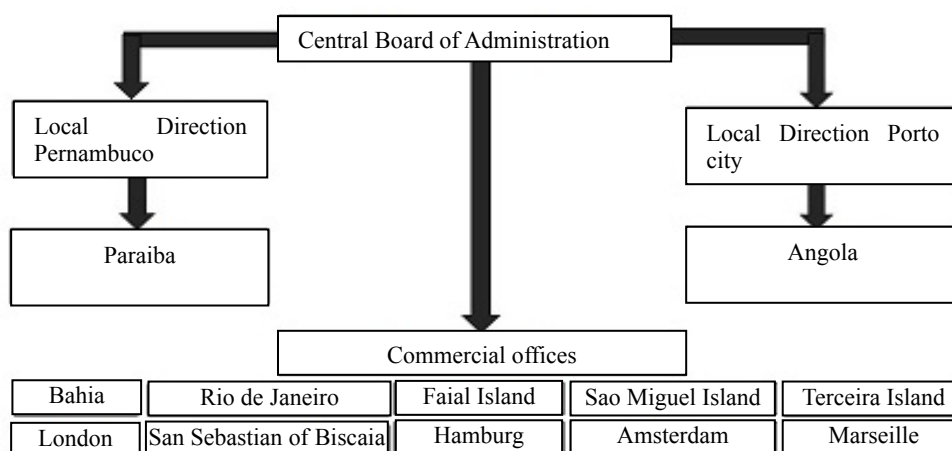
In CGCPP, not only double-entry accounting bookkeeping was mandated but also the use of rigid internal

controls and the implementation of intensive and permanent review of its accounting books carried out by internal auditors of accounts, having as basic principles for its management, ethics and the absence of deviations and frauds. It should be noted that the focus on fraud and embezzlement prevention and management ethics in the context of corporate governance was only sharply emphasized after the financial scandals of large US companies in the 21st century (Silveira, 2004).

The CGCPP administrative structure consisted of one central direction and two local directions. That central management was denominated “Junta de Administração” (Central Administration Board) and it was based in Lisbon, from where all the decisions for the Company were emanated. In the captaincy of Pernambuco and in the city of Porto were established the local directions, which were subordinated to the Central Administration Board. For Paraiba and Angola, two employees were appointed to manage the business of the CGCPP. Ten commercial offices were also established in the following locations: two in Brazil: Bahia and Rio de Janeiro; and eight elsewhere: London, Hamburg, Amsterdam, S. Sebastian de Biscaia and Marseille, Faial Island, St. Miguel Island, Terceira Island (Dias, 2004; Junior, 2004).

The Central Administration Board had the general power of management in CGCPP’s entire jurisdiction, whilst local directions power of administration was limited to the area where they were based. Its Social Statute established that governance and general dispositions would always emanate from the Central Administration Board, which in turn would send orders to the two local directions. It was also stipulated that in matters and business of major importance, other than those of the local direction, the Central Administration Board would be informed so that they should know how to carry out their duties (Junior, 2004).

CGCPP was constituted by a large number of shareholders. Its main administrative core was composed by the shareholders themselves. Their positions were thus denominated in its Social Statute: “Provedor” (equivalent to the position of Chairman), “Deputados” (equivalent to director), Secretary, and Counselors, that together they formed the Company’s administrative committee. These managers were chosen from among the shareholders themselves, by means of an elective process, according to the Company’s by-laws, with the proviso that managers must be traders and holders of at least ten shares of CGCPP’s capital stock, and reside where they were elected for the exercise of their mandate (Dias, 2004; Junior, 2004). It is important to mention that for the first operation of the Company, there was no election for the members of the board of directors, these were designated by the monarch (Dias, 2004, Junior, 2004, Lima & Sangster, 2012). Figure 1 shows the organization chart of the CGCPP management structure.



**Figure 1 Chart of the CGCPP Management Structure**

The Central Administration Board was composed of one “Provedor”, ten “Deputados”, one Secretary and three Counselors (Carreira, 1983; Junior, 2004), all of them were merchants established in Portugal who, for the most part, held positions at the Lisbon Commerce Board and had experience with double-entry accounting bookkeeping in their own business activities. It is noteworthy that the Marquis of Pombal took part of the first Central Administration Board, and from that, one can infer about the royal influence in CGCPP’s operational and administrative activities. Each of the local directions were composed by an “Intendente” (equivalent to Superintendent) and six “Deputados”. Porto’s management exercised administrative control over the business carried out in Angola, and Pernambuco’s management was responsible for the administrative acts performed by the administrator in the Paraíba captaincy. On the other hand, all the business and administrative acts performed by the commercial offices were directly subordinated to the Central Administration Board.

The Central Administration Board in Lisbon managed the entire logistics process of purchasing the products from the Captaincies, the products manufactured in Portugal and the goods acquired in Africa, as well as the inventories, sales and dispatches of goods sold. In order to carry out its activities, the CGCPP’s management structure was organized into six Administrative and Operational Units, of which the one of the largest number of employees was the “Assentos” (responsible for controls on entry and exit of goods). Furthermore, the unity of Accounts Receivable and Loans Granted, that was responsible for the records and control of the collection of third party debts to CGCPP, together with the unity of Inspection of Accounts were the most demanded by the Central Administration Board. The “Contadoria” was set up as an independent unit to control the whole process of accounting bookkeeping, and it was recognized as the central core of the Company. Figure 2 shows the distribution of CGCPP’s Administrative and Operational Units, and their main assignments.

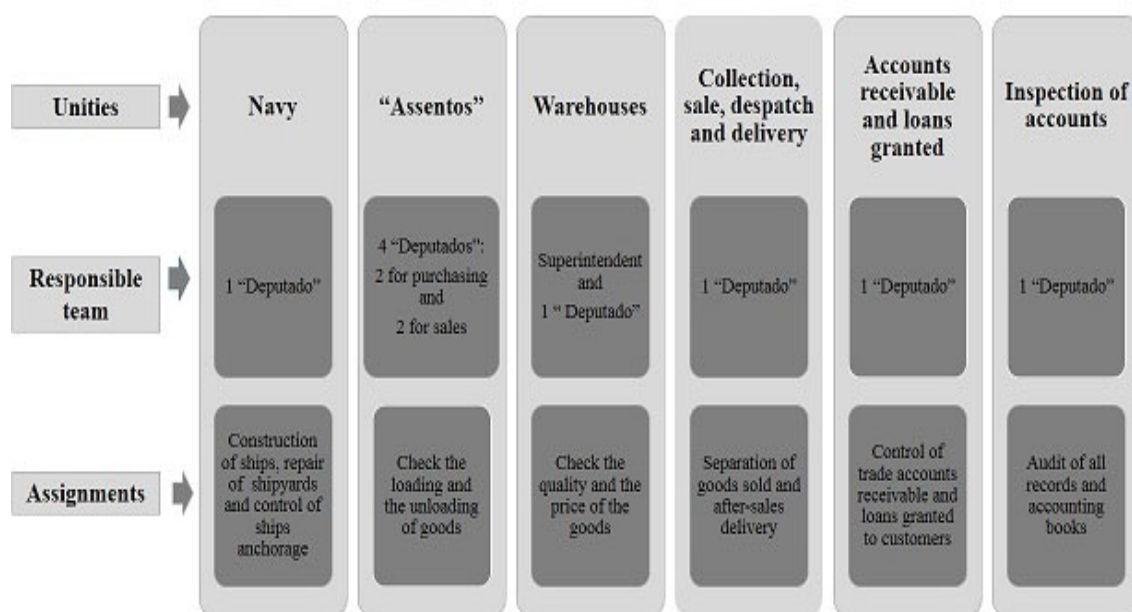


Figure 2 Administrative and Operational Units and Their Assignments

The Company used seventeen books for its internal control system, plus three accounting books: the Memorandum or Waste-book, the Journal and the General Ledger also called by its managers as Master book. The Administrative and Operational Units recorded all the operations into these books, and monthly sent them to the “Contadoria”, accompanied by the invoices and vouchers that support the entries. After conducting the detailed

examinations in these books, the “Contadoria” performed the bookkeeping for all transactions in the Memorandum, and send it to be reviewed by the Inspection of Accounts unit. This second examination is performed by paying attention to the legal formalities of the bookkeeping and checking the sums and balances, and reported any irregularity to the “Contadoria” to do the necessary corrections and the adjustments. After that, the entries of the Memorandum should be transcribed to the Journal and post to the General Ledger

The unity of Inspection of Accounts had the role of internal audit; it supervised all other CGCPP's Administrative and Operational Unities and most especially the “Contadoria”, and reported itself directly to the Central Administration Board. It is necessary to emphasize that its activities were very important for the security of the internal controls of purchases and sales carried out by the Company's management. For that time, that was a very innovative business analytical review system practice, considering that the earliest known occurrence is the Treasury Auditor position created in the year 1314 in England (Silva, 2016).

As far internal audits are concerned, the role played by this Inspection of Accounts unit in the CGCPP presented characteristics much closer to the current internal audit. It should be noted that internal audit actually emerged at the time of the Industrial Revolution (Silva, 2016), with the aim to detecting fraud, errors and irregularities (Martins & Morais, 2013). However, it was only in 1941, with the creation of the Institute of Internal Auditing (IIA), that internal auditing became essential for corporate governance structure, with clear objectives on strengthening internal controls as fundamental tools for management efficiency and effectiveness (Lewis et al., 2001).

### 3.2 Flow of Supply and Sales of Goods

CGCPP observed the trading rules for products and merchandise, previously established in its Economic Directory, and always according to the determinations emanating from the kingdom of Portugal. CGCPP's trade exclusivity implied that the captaincies of Pernambuco and Paraíba had to receive products from the Portuguese factories and slaves from Africa, and send their products to Portugal, whose quantities were defined by the Central Administration Board. Figure 3 shows the commercial flow distribution of goods carried out by CGCPP.

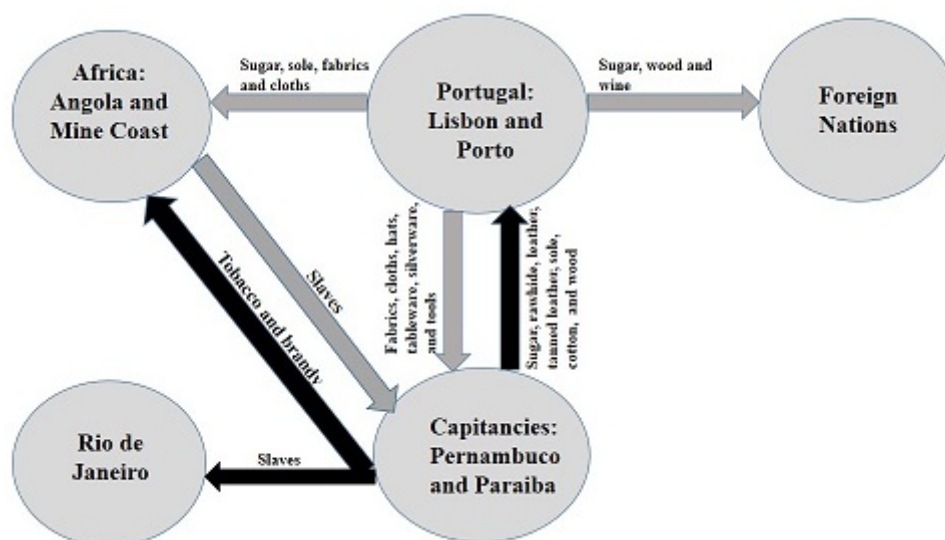


Figure 3 CGCPP Trading Flow

CGCPP's commercial flow was essentially maritime and took a long time to cross the Atlantic, on average a

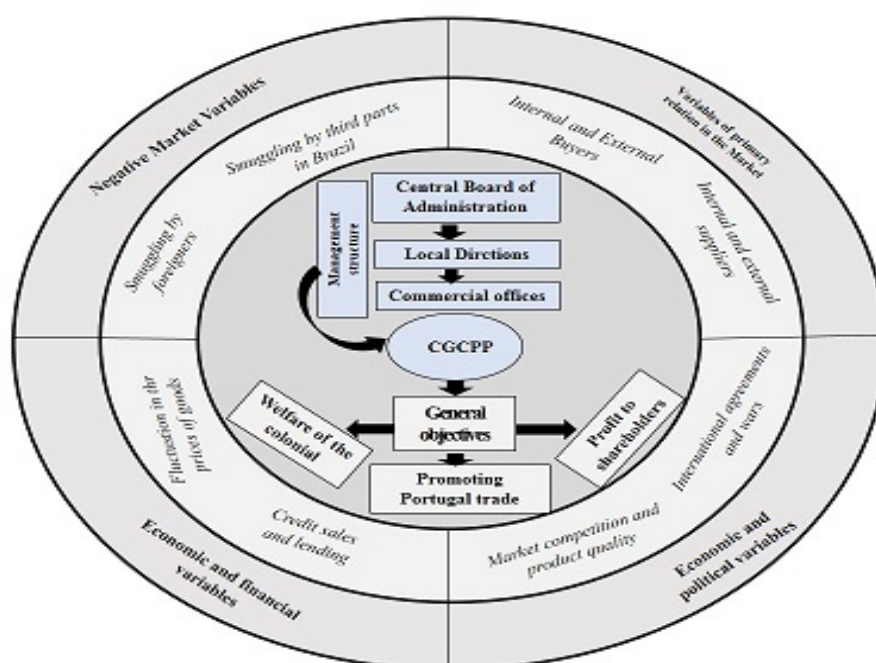


trip spent about thirty-five days of navigation, being subject to the weather conditions. It was carried out by convoys of ships that were accompanied by navy frigates that should defend them from pirate and corsair attacks that might cause irreparable damage to commerce. Portuguese factories, based in Lisbon and in the city of Porto, were the main suppliers of products to the Captaincies, while Africa, especially Angola and Mina Coast, provided black slaves, which together with the products from Portugal were traded in the colony.

The local farmers and manufacturers of the Captaincies were obliged to supply exclusively to the CGCPP, sugar, rawhide, leather and tanned leather, shoes sole, wood and other products of the commercial interest of Portugal. The products purchased in the Captaincies by the CGCPP were shipped to Portugal, which were sold in Lisbon and Porto, and also were exported to foreign nations. For Angola and Mina Coast, the Captaincies supplied the products that normally served as the exchange currency for the purchase of slaves that were resold in Pernambuco, Paraiba and Rio de Janeiro.

### 3.3 Variables of Impact on Trade Activity of CGCPP

The geographical coverage of the CGCPP supply and its distribution chain, the distance between Portugal and the Captaincies, and the exclusive dependence on maritime transport were situations experienced by the kingdom of Portugal since the early of the eighteenth century (Sousa, 2003), that together with the complexity of Company's business were factors that contributed to the emergence variables that were very difficult to control, especially due to the lack of communication among the Central Administration Board in Lisbon and the local directions and its commercial offices (Stoner & Freeman, 1999; Zorrinho et al., 2003; Monks & Minow, 2008). In order to deal with unfavorable situations and to efficiently manage operational variables, a rigid and a comprehensive internal control system was implemented, adopting permanent monitoring mechanisms to ensure good business governance, which were fundamental to CGCPP's management, as already mentioned above. Figure 4 shows the Company's complex operating environment, the most significant variables and the impacts they caused to its business activities.



**Figure 4 Operational Variables and Impacts on CGCPP's Business**

Source: Stoner & Freeman (1999, p.47), adapted by the authors

Figure 4 shows the presence two way of smuggling that was a relevant and a very negative variable of unfavorable impact on Company's business. It was carried out by both foreign nations and Brazilian colonialist, and which caused great damage to CGCPP business (Lima & Sangster, 2012). Other negative variables of difficult control were the wars and international agreements signed by Portugal, as well as trade competition, especially of English and Dutch products, which directly influenced the Company's commercial relations.

The inhabitants of the captaincies usually did not have sufficient financial resources and depended on the acquisition of credit, a situation that greatly affected the Company's cash flow. This was one of the components of the economic and financial variables that, together with fluctuations of market prices, were factors that made very difficult to manager its working capital. The lack of funds in the Captaincies also influenced the supply of goods by both the local producers and by Portuguese factories. The most affected local products were sugar, rawhide, leather and tanned leather, and tobacco, which were exported on a large scale. Add to these merchandises, the slaves from Angola and the Mina Coast, whose purchases were usually made on the basis of exchange for goods shipped in the Captaincies of Pernambuco and Paraiba (Junior, 2004), and they usually were sell on credit in the Captaincies.

The money scarcity in the Captaincies also generated additional financial problems for the CGCPP, since it had to honor its commitments both for the local suppliers and for the Portuguese factories in hard currency. Therefore, the importance of internal controls on cash availability, cash flow, credit sales and loans was increasingly emphasized, as these items were essential to CGCPP's financial security. Another relevant item to its financial control refers to the monitoring of payment defaults, whose treatment was quite complex, since in addition to the individualized control over debtors, individual interest payments should be recorded on a monthly basis, taking into account any partial payments and new additions on debt by each customers.

In what concerns the policy of sales credit and loan granting, CGCPP also had to obey the guidelines established by the kingdom of Portugal. The king of Portugal had determined in January 17, 1757, a maximum percentage of 5% per year for the interest rate on debts, both inside and outside the country, on the grounds of facilitating capital circulation and strengthening trade and investment in Portugal. This was another approach on influences in CGCPP's operational activities, as previously highlighted.

On the other hand, the external environment was extremely complex, since there were many variables such as economic, political, technological and of social nature, among others, that could hardly be controlled by the Company's management. Some market variables, also demanded special attention from the Company's managers, since besides the normal demand and price fluctuations, contraband was a factor very much present in overseas trade (Lima & Sangster, 2012). However, the Company's management permanently monitored all these variables so that it could anticipate measures and possible changes and adjustments to the constantly changing business context. The analysis of the processes and procedures implemented to improving the controls of the commercial flow of purchases and sales are considered very important for understanding how strengthening of the governance structure was carried out by the CGCPP in order to satisfactorily deal with the complexity of its business activities.

### **3.4 Flow of Incoming and Outgoing Goods**

At a macroeconomic level, for general trading companies, commercial policies were defined by the kingdom of Portugal, considering the kingdom's economic interests, on which the captaincies of Pernambuco and Paraiba, given their subordinate status, had no interference whatsoever. So, CGCPP's should intervene directly and decisively on the sugar cane and tobacco farmers, the sugar mill owners and local leather manufacturers of those

Captaincies, in order to increase production levels and the quality of these products as much as possible and also serve as intermediary for the purchase and outflow of these products to Portugal.

On the other hand, the Company should also promote trade in the colonies, which presupposed an increase in colonial purchasing power, thus transforming the Captaincies into a consumer market both for products manufactured in Portugal and for the African slaves. As a result, CGCPP was fundamental in making the captaincies of Pernambuco and Paraiba, major consumers for the products from the “Real Fabrica das Sedas”, as well as hats, silverware and tools from others Portuguese factories. It stands out the insistent recommendation of the Central Board of Administration in Lisbon to foment the trade of African slaves in the Captaincies, mainly by negotiating them for the owners of sugar cane mills and the farmers of sugar cane, and sent the surplus to be sold by the commercial office of the CGCPP in Rio de Janeiro.

#### 3.4.1 Incoming of Goods

The flow of products entering the CGCPP occurred mainly by sea, but also by land. In the incoming by sea, it was up to the Navy to follow up the landing, carry out the respective clearance, and release to the Warehouses, and to record the costs of freight and shipping for “Contadoria” referral. The “Contadoria” made a comparison of the records contained in the Warehouses and in the “Assentos” books, and proceeded the entries into the accounting books. As already mentioned, it was mandatory that the unit of Inspection of Accounts should review all these accounting books, as determined by the Economic Directory of the CGCPP.

The goods that arrived by land, such as those from the colonial suppliers, firstly passed through the Inspection Bureau of colony merchants (Varnhagen, 1952)<sup>2</sup>, who had to examine them paying attention to their quality, their quantity per package and their prices according to the current regulations of the kingdom. After that, the Inspection Bureau should collected the taxes stipulated by the Royal Finance of Pernambuco, and only after these procedures, the goods were sent to CGCPP warehouses and, as a final step, the “Assentos” did a new conference and registered them in the books, both at cost, and at estimated revenue.

Figure 5 shows the flow of the incoming of goods for the CGCPP’s central warehouses and deposits in Lisbon, which were responsible for shipping all the products sold, both inside Portugal and for the foreign nations, for Africa and for the captaincies of Pernambuco and Paraiba. The setting up of the storage logistics in Lisbon had two reasons: a) the existence of better shipping conditions and be close to European consumers; and b) facility of ensuring greater efficiency in internal controls on CGCPP products. It should also be mentioned that the local directions of Pernambuco and Porto also had warehouses for products internally purchased and received in transit from Lisbon, for retail trade for the local inhabitants. In Africa, the warehouses used by CGCPP were almost exclusively for the commercialization of slaves for the captaincies of Pernambuco and Paraiba.

In Figure 5, two fundamental points of internal controls can be observed: 1) in the Warehouses, the personnel responsible for entering goods, accompanied by representatives of the “Assentos”, checked the quantity, the quality and the prices of the goods, and record them in the inventory books; and 2) simultaneously, the “Assentos” registered the goods in two ways, in another book: a) at cost; and b) at estimated revenues, based on pre-defined profit rates emanating from the CGCPP’s By-laws. These records were made in the specific internal control books, which would then be sent to the “Contadoria”.

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<sup>2</sup> The Inspection Bureau was an administrative unit for commerce, installed in the colonies, responsible for controlling the price, quality and weight of the colonial products, mainly sugar.

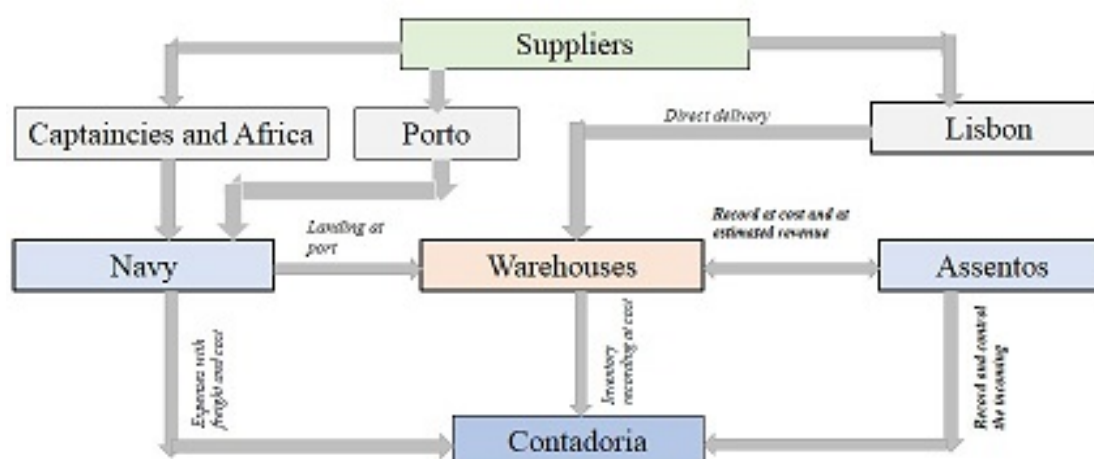


Figure 5 Flow of Incoming Goods

In relation to goods sales, everything was processed in the same way, through procedures of internal controls established for the movement of goods in the CGCPP Warehouses. Figure 6 shows how the exit of goods sold would be accomplished and their respective records were carried out into the books of internal control, by the Administrative and Operational Units involved in the transactions.

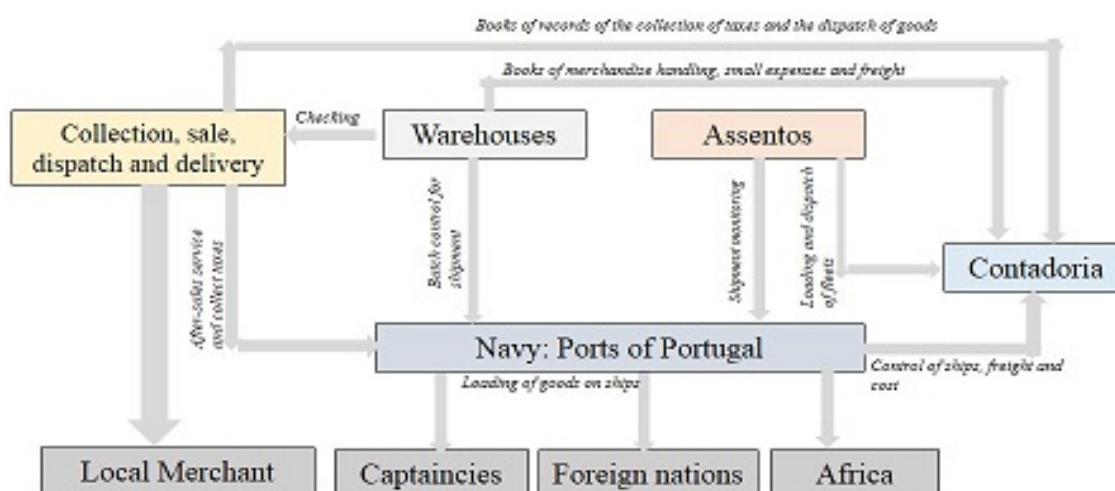


Figure 6 Goods Sales Flow

Sales operations usually had four destinations: a) for the Portuguese local merchants, who acted as resellers; b) for the captaincies of Pernambuco and Paraíba, for which the local management was responsible for selling all received products; c) for foreign nations, in relation to both products received from the Captaincies and those manufactured in Portugal; and (d) for Africa. The Collection, Sale, Dispatch and Delivery unit was responsible for the product delivery for the customers. The Warehouses unit recorded the exits of goods into the specific books of inventory control, as well as the values for the freights and any small expenses that were due. The Navy did the individualized registration of the loaded goods, the freight costs and the docking expenses into the specific book of internal control. On the other hand, the “Assentos” monitored the ship loading and recorded into the internal control books all the product exits, as far as the quantities and the prices and the freight costs. It is observed that,

already at this stage, there was a complete double control in all the Administrative and Operational Units involved in the incoming and sales of goods.

Product shipments for foreign nations were recorded as actual sales, while outflows for the Captaincies that did not yet represent actual sales, they were treated as transfers for subsequent sale, even though their accounting records were made at the estimated sale price. The records made by the Collection, Sale, Dispatch and Delivery and “Assentos” gave an account of which that exits were actual sales, and whether they were in cash or accounts receivable, which were complemented by the following steps: a) accounts receivables — forwarding of sales invoices to the Inspection and Debt Collection unit, for proper record of sales on credit. The Accounts Receivable and Loans Granted unit was responsible for collecting, monitoring possible defaults and logging the monthly interest due on arrears, as established in the kingdom's legislation. In case of a cash sale, the Warehouses would record the exit of the goods in a cashbook and forward the appropriate invoices and vouchers to the “Contadoria” that entered the records in the accounting books.

Finally, as it was explained above, all the Administrative and Operational unities would send to the “Contadoria” the internal control books, accompanied by the inventories, cargos manifests, and all invoices and vouchers of the records entered. After the Contadoria accomplishes the whole process of the accounting bookkeeping, and the accounting books were diligently examined by the Inspection of Accounts, everything was ready for preparing the financial reports.

At the end of each calendar year, the “Contadoria” would prepare a trial balance of the accounts, and then, after checking the equality of the debits and credits, would design the balance sheet and the profit-and-loss statement for the Company, which were then submitted to the examination of the Inspector of Accounts, who would write an opinion report to subsidize the approval of these financial reports by the Central Administration Board. After analyzing the CGCPP's financial condition and its properties state for the year ended, the Central Board of Directors would deliberate about the financial amount for the distribution of profits to the shareholders and regarding other matters of interest to the Company.

#### **4. Conclusion**

This work analyzed the management and governance structure of the Companhia Geral de Comércio de Pernambuco e Paraíba — CGCPP, from the perspective of the Company's governance structure conceptual framework, considering the peculiarities and political, economic, social and institutional characteristics of the time. It concludes that the management model and governance structure adopted was adequate for the complexity of its operations, in addition to having similarities to the current management practices of business organizations.

It should be noted that the main results achieved by this research, which are considered as important contributions to the history of accounting, especially in the areas of management and governance, are the facts that already in the second half of the eighteenth century the CGCPP: 1) operated within a sophisticated management model, based on internal control systems, with clear definitions of assignments and responsibilities for its Administrative and Operational units, together forming a governance structure in line with its social objectives; 2) exercised permanent monitoring of its operations based on accounting reports prepared by its “Contadoria”(Accounting department), with records of all transactions by doubled-entry accounting; and 3) adopted in its governance structure an Inspection of Accounts unit, with internal audit characteristics, subordinated to the Central Administration Board in Lisbon, in a period where there is no known other historical

evidence about a similar case, in the business area.

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