THE CENTRAL ROLES PLAYED BY CORPORATE GOVERNANCE AND ACCOUNTING IN THE 18TH CENTURY PORTUGUESE CHARTERED TRADING COMPANIES FOUNDED BY THE MARQUIS OF POMBAL

OS PAPÉIS CENTRAIS DESEMPENHADOS PELO GOVERNO DAS SOCIEDADES E PELA CONTABILIDADE NAS COMPANHIAS COMERCIAIS PORTUGUESAS DO SÉCULO XVIII FUNDADAS PELO MARQUÊS DE POMBAL

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Abstract: The article explores three of the general trading companies founded by Marquis of Pombal – the Companhia Geral do Grão-Pará e Maranhão (Grão-Pará and Maranhão General Trading Company, 1755), the Companhia Geral da Agricultura das Vinhas do Alto Douro (Agriculture of Alto Douro Vineyards General Trading Company, 1756) and Companhia Geral de Pernambuco e Paraíba (Pernambuco and Paraíba General Trading Company, 1759) –, both in terms of accounting and corporate governance rules. In order to identify the similarities and differences between the founding documents of the three companies, this text adopts a qualitative research approach that uses primary and secondary research sources. This paper represents a contribution to a better understanding of 18th Portuguese accounting and a contribution to expand the knowledge of the governance model of 18th century Portuguese companies, providing, in this way, a systematization of the factors that contributed to the foundation of the three companies combined with the analysis of its internal functioning within the framework of its corporate governance rules.

Keywords: Accounting History; Marquis of Pombal; Accounting; Corporate Governance; 18th century; Portugal; Chartered Joint-Stock Companies.

Resumo: *O artigo explora a contabilidade e o modelo de governo societário de três empresas comerciais fundadas pelo Marquês de Pombal, a Companhia Geral do Grão-Pará e Maranhão (1755), a Companhia Geral da Agricultura das Vinhas do Alto Douro (1756) e a Companhia Geral de Pernambuco e Paraíba (1759). Com a intenção de identificar as semelhanças e as diferenças entre os documentos fundamentais das três firmas, a investigação adota um ponto de vista qualitativo, utilizando fontes primárias e fontes secundárias de investigação. Este artigo representa uma contribuição para uma melhor compreensão da contabilidade portuguesa do século XVIII e para o* *aumento do conhecimento sobre o modelo de governo das sociedades pombalinas (as companhias privilegiadas por ações), proporcionando, para este fim, uma sistematização dos fatores que contribuíram para a fundação dessas grandes empresas combinada com uma análise do seu funcionamento interno no âmbito do estudo das suas regras de governo das sociedades.*

Palavras-chave: *História da Contabilidade; Marquês de Pombal; Contabilidade; Governo das Sociedades; Século XVIII; Portugal; Companhias Privilegiadas por Ações.*

1.INTRODUCTION

During the period from 1750 to 1777, in the reign of *D. José I* (1714–1777), due, among other factors, to the institutionalization of double-entry bookkeeping as the accounting method used compulsorily by Portuguese chartered joint-stock companies (Gonçalves, 2017: 34), a "period of Portuguese accounting Enlightenment" was experienced. This epoch, widely reported in the history of Portuguese accounting, was due to the political action of *Sebastião José de Carvalho e Melo* (1699–1782) (commonly known as Marquis of *Pombal*, a noble title he obtained in 1770), Portugal's Prime Minister from 1756 to 1777. *Pombal* founded in Lisbon in 1759 the School of Commerce (1759–1844), a public institution that taught double-entry bookkeeping in its course plan (Rodrigues & Craig, 2004; Rodrigues, Gomes & Craig, 2004; Gonçalves, 2017).

Pombal was also a fervent defender of the mercantilist current, which established that a nation's economic success depended, in part, on the institution of state-controlled monopoly colonial companies as opposed to free private enterprise by traders (Barreto, 1986: LII). In fact, "under mercantilism, the State exercised control over economic life and established trading corporations, often with monopoly rights, to exploit commerce with colonies for the benefit of the mother country" (Rodrigues & Craig, 2004: 331; 2005: 23).

In this sense, it was in this reign that, in Portugal, monopolistic companies envisioned "its heyday in the modern period" (Macedo, 1979: 128). Although this historical period embraces the institution of six commercial companies, the present study will be limited to the three large Pombaline companies (Marcos, 1997: 347), namely: *Companhia Geral do Grão-Pará e Maranhão* (CGGPM – *Grão-Pará* and *Maranhão* General Trading Company, 1755), *Companhia Geral da Agricultura das Vinhas do Alto Douro* (CGAVAD – Agriculture of *Alto Douro* Vineyards General Trading Company, 1756) and *Companhia Geral de Pernambuco e Paraíba* (CGPP – *Pernambuco* and *Paraíba* General Trading Company, 1759).

In this context, the article intends to explore these three general trading companies founded by Marquis of *Pombal*, both in terms of accounting and corporate governance rules. In order to identify the similarities and differences between the founding documents of the three companies, this text adopts a qualitative methodology research approach that uses, as method, primary and secondary research sources.

For the pursuit of this objective, it is important to define the methodology and the method of the present research (Silverman, 2001). The methodology is understood as the way to study a certain problem and the method understands the way the data is collected (Silverman, 2001). Thus, as for the first topic, the present research is characterized as qualitative, because "although accounting deals intensively with numbers, it is a social science, and not an exact science [...], which justifies the relevance of using the qualitative approach" (Raupp & Beuren, 2006: 92). As for the method, documentary sources (Vieira, Major & Robalo, 2009), both primary and secondary, were privileged. The primary sources were collected in the *Arquivo Nacional da Torre do Tombo* (National Archives of *Torre do Tombo*), in the *Arquivo Histórico do Tribunal de Contas* (Historical Archives of the Court of Accounts), in the *Biblioteca Nacional de Portugal* (National Library of Portugal), in the British Library and in the *Biblioteca Municipal de Anadia* (Municipal Library of *Anadia*). The secondary sources were extracted from scientific journals and books/manuals, among other several research units.

The topics addressed by the paper fall within the scope of institutional history, as this area of the accounting history "investigates the past experience of institutions" (Faria, 2006: 202), proving to be important the assessment and analysis of the social and political environment (Previts, Parker & Coffman, 1990b: 139). As Gomes and Rodrigues (2009: 226) refer, this type of investigation contributes to the expansion and interpretation of accounting organizations and accounting profession. The same authors also state that they are useful for future investigations that may be inspired by the institutions under debate (Gomes & Rodrigues, 2009).

The paper is divided into six sections, including this introduction. The second section explores the Portuguese companies that preceded the Pombaline period. The following section discusses the way in which *Pombal* acquired knowledge of the advantages of these commercial consortia and elaborates a historical overview of the reasons that led to the establishment of monopoly companies in the reign of *D. José I*. The fourth section presents the essential elements regarding the accounting of the Pombaline companies and the fifth emphasizes the corporate governance model of the three trading companies under analysis. The study ends with the conclusion and the enunciation of clues for future work.

2. PORTUGUESE TRADING COMPANIES ESTABLISHED BEFORE THE POMBALINE PERIOD

In the 17^{th} and 18^{th} centuries, several countries became noteworthy for founding monopoly companies, such as Holland, England and, after these, France (Azevedo, 1922: 34-35; Marcos, 1997: 50). According to Marcos (1997: 45), the foundation of the *Companhia Holandesa das Índias Orientais* (Dutch Company of the East Indies, 1602), at the dawn of the 17th century, "constitutes a decisive landmark in the trajectory of companies by current actions".

Watchful of the plentiful profits made by Dutch and English companies in trade with Russia and India, Portugal saw opportunity to create its own companies (Macedo, 1979: 123). However, the first Portuguese company with a significant scope appears in the reign (1640–1656) of king *D. João IV*: the *Companhia do Comércio do Brasil* (Brazilian Commerce Company), founded in 1649 (Macedo, 1979: 124).

Table 1 lists the companies formed by Portugal, from 1649 to 1750, identifying their nature and establishing observations regarding their institution, operation and terminus.

Table 1: Monopoly companies (firms) founded by Portugal, from 1649 to 1750.

Starting year – Settlement year	*Designation*	*Nature of the firm*	*Comments*	*Sources*
1649 – 1662	*Companhia do Comércio do Brasil* **Brazilian Commerce Company**	Commercial	Instituted on March 8, 1649. Its subscribed capital was 1,300,000 *cruzados*[1] and its charter was signed by a Board of appointed deputies. These included few of the main shareholders. This company gave rise to a Board of Trade in 1662, having been extinguished in 1720 (in 1755, *Pombal* founded an institution with the same designation: Board of Trade). This company lasted 13 years (1649–1662) as a trading company to Brazil and 58 years (1662–1720) as an administrative institution that managed the fleets for Portuguese America from Lisbon.	Macedo (1979: 124-126); Marcos (1997, 151-174); Silva (2006: 161).
1676 – 1682	*Companhia de Cacheu, Rios e Comércio da Guiné* **Portuguese Guinea Cacheu, Rivers and Commerce Company**	Commercial	Established by the permit of May 19, 1676. It included exclusive navigation and slave traffic to/from Portuguese Guinea. The duration of this company was set at six years. It did not contain internal operating standards.	Marcos (1997: 175-178).
1682 – 1685	*Companhia do Estanco do Maranhão e Pará* **Estanco do *Maranhão* and *Pará* Company**	Commercial	Its corporate purpose was the monopoly of certain products and the exclusive introduction of slaves into the territory of *Maranhão* and *Pará* (colonial Brazil). Although it was set to	Marcos (1997: 179-180).

[1] The *cruzado* (plural, *cruzados*) corresponded to an old Portuguese coin, of gold or silver, with the value of 400 *réis*. The Portuguese monetary unit was the *real* (the plural of *real* was *réis*).

			run for 20 years, it only worked for the first three.	
1690 – 1703	*Companhia de Cacheu e Cabo Verde* **Cacheu and Cape Verde Company**	Commercial	Approved by permit of January 3, 1690. Operated in the same geographical area as Guinea Cacheu, Rivers and Commerce Company; however, unlike the latter, it did not enjoy a monopoly of law. It did not contain internal operating standards.	Marcos (1997: 177-179).
Starting year – Settlement year	***Designation***	***Nature of the firm***	***Comments***	***Sources***
1693 – 1699	*Companhia da Índia* **India Company**	Commercial	Composed of a capital of 1,500,000 *cruzados*, which, if it were not realized in a period of three years, would be filled with real funds. The company was intended to last 12 years, which did not happen.	Marcos (1997: 181-187).
1710 – 1720	*Companhia de Macau* **Macau Company**	Commercial	Of little importance, it was created under the impulse of the Brotherhood of *Espírito Santo da Pedreira* (a Lisbon businessmen association), having been under its purview.	Marcos (1997: 189-190).
1723 – 1730	*Companhia do Corisco* ***Corisco* Company**	Commercial	Its by-laws were gradually published in *Gazeta de Lisboa* (Lisbon Gazette) in order to attract investors. This company was formed with foreign capital (French) and foreign personnel (French, also); it was a slave trade company. Corisco is an island that today belongs to Equatorial Guinea.	Macedo (1982: 59); Marcos (1997: 190-192).
1734 – 1750	*Companhia da Fábrica das Sedas* **Silks Factory Company**	Industrial	Established by deed of October 5, 1734. The granting of the privilege to the main founder, the French *Robert Godin*, covered the period of 20 years. This Lisbon company is of particular importance in Portugal, as it is the first joint-stock company and for being the first industrial company to use the double-entry bookkeeping method[2], in 1745. This industrial company went bankrupt in 1750 and, in 1757, passed into the hands of the crown, having been nationalized and started to be managed and administered by the Board of Trade from 1757.	Carvalho, Cochicho, Rodrigues and Paixão (2016: 2-3); Carvalho, Rodrigues and Craig (2007); Gonçalves (2017: 38); Marcos (1997: 197-200).
1741 – 1757	*Companhia de Comércio para a China* **China Trade Company**	Commercial	Established by the license of June 3, 1741. This company contemplated its capital divided into shares. Established in close connection with the Silks Factory	Marcos (1997: 200-202).

[2] Henriques and Oliveira (2018) argue that double-entry bookkeeping was instituted in Portugal for the first time in 1722 (in the tobacco business). Thus, they anticipate the date of double-entry bookkeeping in Portugal from 1745 to 1722.

			Company (founded in 1734), the China Trade Company had the monopoly of the silk trade coming from Macau to the Silks Factory Company as raw materials for manufacturing in Lisbon.	

With the exception of the Silks Factory Company, the literature is still unable to accurately identify the accounting methods used by the aforementioned companies, as well as their internal governance rules, partly because it was not possible to find the surviving files of these companies, but also due to the fact that many of them registered a very short-lived existence with very scarce foundational documents from the point of view of their informative analysis. However, everything indicates that the accounting method used has been single-entry bookkeeping, given that no empirical evidence was found in Portugal of the existence of double-entry bookkeeping until 1745 (Carvalho *et al.*, 2007).

3. PORTUGUESE TRADING COMPANIES ESTABLISHED IN THE REIGN OF *D. JOSÉ I*: SYNTHESIS AND CONTEXT

The one who would become the right-hand man of the reformist monarch *D. José I* began his political career in London (1738–1744; six months also in 1745), as an extraordinary envoy (post equivalent to that of ambassador) of *D. João V* (Gonçalves, 2019: 118). Characterized as "a self-taught man, very literate and very knowledgeable about matters of public and private administration" (Gonçalves & Ribeiro, 2015: 174-175), it would be in that English city that *Pombal* took notice of the advantages of the mercantilist current that prevailed throughout Europe. In this way,

> Pombal aspired to use mercantilist techniques – monopoly companies, regulation, taxes and subsidies – to facilitate the accumulation of individual capital by Portuguese merchants. This assistance to Portuguese capitalists had wider objectives and consequences, as it was part of a scheme to strengthen the country's negotiating power inside and outside the Atlantic trading system (Maxwell, 2015: 91).

During his stay in London, *Pombal* established his personal library, which included several French and English works dealing with a variety of economic subjects (Barreto, 1986: XXXV), namely, "finance, customs, arts and manufactures, [manuals] that make it possible to understand the formation of his economic thinking" (Serrão, 1987: 39). As Barreto (1986: XXXV) states, "these books demonstrated, at least, the importance that *Sebastião de Carvalho* [*Pombal*] already attributed to the knowledge of economic issues in the formation of the 'man of State' or 'cabinet minister', that he, since that time, aspired to become". Barreto (1986: 171-177) presents a list of 96 of the 565 titles that made up the London collection of *Pombal*, a list that suggests that he was one of the first Portuguese to have written knowledge of accounting that explained double-entry bookkeeping (Gonçalves, Lira & Marques, 2013: 154). In this particular, Oliveira (2013: 67) says that "undoubtedly, the Marquis of *Pombal* knew how to analyze accounts prepared under double-entry bookkeeping and to draw conclusions about them".

In a letter sent from London to *Cardeal da Mota* (main advisor to King D. João V), *Pombal* suggested the creation of a *Companhia Oriental da Índia* (Eastern India Portuguese Company) (see Pombal, 1742: § 4). He also reports that his interest in monopolies led him to attend conferences on the subject in which he had "great professors of the art of commerce" (Pombal, 1742: § 37). In addition, John Cleland, an experienced employee of the English East India Company, was willing to help him implement his idea (Rodrigues & Craig, 2004: 330; 2005: 23). Although Cleland came to be at *Cardeal da Mota*´s house in Lisbon to discuss this company's project, it did not progress due to the illness of *D. João V* (Rodrigues & Craig, 2004: 338-339; 2005: 28). The Portuguese aristocrats did not welcome the institution of commercial companies, which is why *Pombal* was sent to his second diplomatic mission from 1745 to 1749, this time in Vienna city (Macedo, 1979: 127). *Pombal* was thus withdrawn involuntarily from the circle of power in Portugal.

One year after the return of *Pombal* to Lisbon from his legation in Austria, *D. José I* was enthroned king of Portugal (in 1750), as his father, *D. João V* passed. It is in this context that *Pombal* assumes a prominent position that allowed him to interfere in the destinies of the kingdom, when he occupied the post of Minister of War and Foreign Affairs, representing "clearly the intention to break with the pre-existing situation" (Monteiro, 2006: 55), that configured a reign of great confusion in public administration. Later, on May 5, 1756 (*Torre do Tombo National Archives, Ministry of the Kingdom, Decrees, Pack 2, Document 33*), *Pombal* was appointed as Chief Minister (as Minister of the Internal Kingdom Affairs), the most important of the Portuguese monarchy.

One of *Pombal's* measures as a ruler was the creation of monopoly trading companies whose objective was to contribute to the nationalization of Portuguese trade. In this order of ideas, the first monopolistic company under the responsibility of Marquis of *Pombal*, CGGPM, emerged in 1755. For its foundation contributed *Francisco Xavier de Mendonça Furtado*, *Pombal's* brother, who in 1751 was appointed by *D. José I* governor of *Pará* and *Maranhão* (Serrão, 1996: 20, 48), two regions in colonial Brazil. *Francisco Xavier* held this post in order to expel the Jesuits from this region, given the importance they had acquired over the Indians by granting them comforts that they had not known until then (Correia, 1930: 104).

Francisco Xavier believed in the advantages of using African labour to the detriment of the indigenous and began to imagine ways to introduce it into the field for which he was responsible (Monteiro, 2006: 73). Thus, according to Marcos (1997: 385), the Brazilian governor sent a letter to his brother dated January 18, 1754 in which he suggested the establishment of a General Trade Company for the introduction of black slaves in that area. According to the same author, an anonymous manuscript arrived in Portugal with an initial version of the company's by-laws; however, the final version of the CGGPM's by-laws was written by *Pombal* and an important Lisbon merchant, *José Francisco da Cruz* (Marcos, 1997: 382-383, 386-392).

Table 2 shows the six companies established in the Pombaline period in order to identify when and how they were established and, in addition, describes the founding legislation associated with each of them.

Table 2: Companies established in the reign of *D. José I* (1750–1777).

Starting year – Settlement year	***Designation***	***Nature of the firm***	***Comments***	***Sources***
1753 – 1760	*Companhia de Comércio da Ásia* **Asian Trade Company**	Commercial	It was not a company in its entirety. Through several decrees, *Feliciano Velho Oldemberg* was allowed to send several ships to the East. In this sense, the number of trips and the destination was previously established. This also included its social capital divided by shares, with the sharing of profits and the final settlement being the responsibility of its director. It is important to underline that his institution was not created by *Pombal*.	Marcos (1997: 262-266); Miranda (2007).
1755 – 1778	*Companhia Geral do Grão-Pará e Maranhão (CGGPM)* ***Grão-Pará* and *Maranhão* General Trading Company**	Commercial	Established by charter of June 5, 1755, to which *Francisco Xavier de Mendonça*, brother of Marquis of *Pombal*, contributed a lot. Its private by-laws date from February 16, 1760. The monopoly ended in 1778, but the firm continued to function as a private freight company.	Macedo (1979: 128-129); Serrão (1987: 130-131); Particular by-laws of CGGPM.
1756 – Present day (with the name *Real Companhia Velha*)	*Companhia Geral da Agricultura das Vinhas do Alto Douro (CGAVAD)* **Agriculture of *Alto Douro* Vineyards General Trading Company**	Commercial	Established by royal license of September 10, at the request of northern businessmen in order to protect the production and marketing of *Porto* wine. The private by-laws were promulgated on February 10, 1761. Among its proponents, the figure of *Pombal* stands out.	Serrão (1987: 132-134); Particular by-laws of CGAVAD.

1757 – 1835	*Real Fábrica das Sedas* **Royal Silks Factory**	Industrial	The Silks Factory Company gave way to the Royal Silks Factory, through the process of nationalization of this organism. Its by-laws and its economic directory were approved on August 6, 1757.	Public and Particular by-laws of Royal Silks Factory.
1759 – 1780	*Companhia Geral de Pernambuco e Paraíba (CGPP)* ***Pernambuco* and *Paraíba* General Trading Company**	Commercial	Due to the request of several merchants, this company arises to trade with *Pernambuco* and *Paraíba*, through the charter of August 13, 1759. The private by-laws of this company date from January 7, 1760. *Pombal* was one of its proponents. Extinguished in 1780 as a monopoly firm, it continued its activity in free trade.	Serrão, (1987: 131-132); Particular by-laws of CGPP.
1766 – 1768	*Companhia de Comércio dos Mujaos e dos Macuas* **Mujaos and Macuas Trade Company** also known as *Companhia de Moçambique* **Mozambique Company**	Commercial	Unlike the three general companies, access to this company's share capital was restricted to residents of certain geographic areas, such as Mozambique. The by-laws of this company did not contemplate the transfer of shares, except for two circumstances: the abandonment of residence in Mozambique and the death of its holder.	Marcos (1997: 266-273).
1773 – 1835	*Companhia Geral das Reais Pescarias do Reino do Algarve* **General Company of the Royal Fisheries of the Kingdom of the *Algarve***	Commercial	To combat the degraded state of fishing in the *Algarve*, *Pombal* established this company by a charter of January 15, 1773, which is also a joint-stock company, like the other companies established in the Pombaline period. This company did not have a supplier like the general Pombaline companies, but four directors. Extinguished in 1835 as a monopoly society, it continued its activity in free trade for more than 100 years.	Gonçalves (2017: 41, 97).

The main Pombaline companies (CGGPM, CGAVAD and CGPP) had two documents that governed their operation: the general or public by-laws and the private by-laws or economic directory. The private by-laws of these three firms were designed by *Pombal* (Oliveira, 2013). Marcos (1997: 379) states that general by-laws were of public knowledge, as they were printed. Differently, private by-laws were secret (Marcos, 1997: 379) and only known to the administrative and executing body of each company: the Board of Directors (Sousa, 2006: 76).

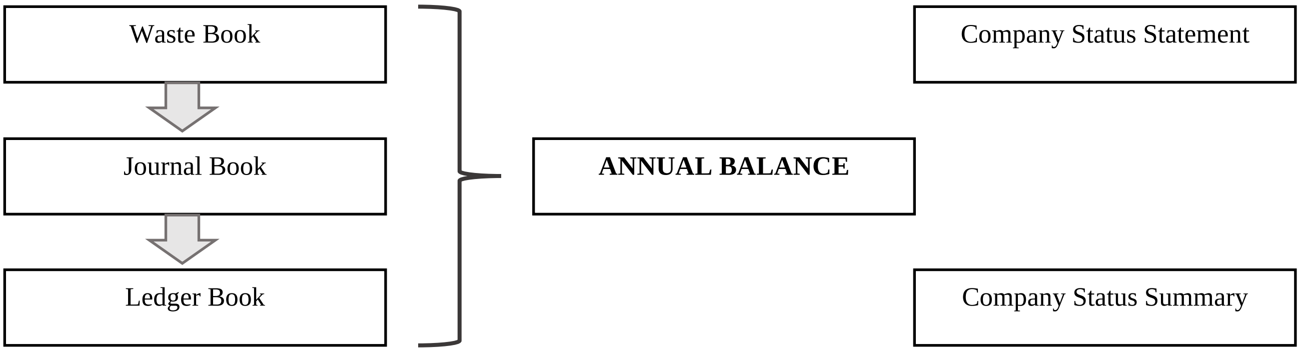
4. ELEMENTS FOR UNDERSTANDING THE ACCOUNTING OF POMBALINE COMPANIES

The companies that *Pombal* helped to create had several characteristics similar to each other: they were all born from royal will that confirmed them through a charter (they were chartered companies); they were joint-stock companies; subscriptions were open to the general public; and shares were freely transferable (Oliveira, 2013).

The guidelines for the accounting were set out in their private by-laws. For this reason, only the members of the Board of Directors and those directly related to the Accounting Department (private by-laws – § 59 of the CGCPM, § 59 of the CGAVAD and § 44 of the CGPP) were aware of them. Amongst the deputies of the Board, one was appointed as inspector of the Accounting Department, with the function of examining all records and accounts, and should visit the Accounting Department at least twice a week (private by-laws – §§ 22 of CGGPM and CGPP). Regarding this aspect, CGAVAD was more demanding, as it appointed two deputies to this function for a period of two months, and these elements must visit the accounting office every day (both in the morning and in the afternoon, taking the necessary time to resolve the business) (private by-laws – § 30 of the CGAVAD). The role of inspector of Accounting was extremely important in the corporate life of the companies, because a delay in the accounts would prevent the sharing of profits which would correspond to a loss of credit for the company and its Board.

The companies' accounting consisted, mainly, in three principal accounting books, following the stipulated by *Luca Pacioli* (1446–7/1517) in his work *De Computis et Scripturis* (1494) (Oliveira, 2008: 105; Oliveira, 2013: 85). Thus, the referred system was composed of three main books: the waste book, the journal book and the ledger book. In addition to these, some auxiliary books suitable for the operation area of each of the companies were contemplated (private by-laws - § 30 of CGGPM, § 36 of CGAVAD and § 30 of CGPP). This process resulted in the company's annual balance sheet, the company's status statement and its summary, as shown in figure 1.

Figure 1: The accounting system of Pombaline companies.



The connection between the journal book and the ledger book was established by indicating the number of folios. Each account posted in the journal included the folio number of the ledger book in which the same entry could be found. In its turn, in the ledger book, the left page recorded the *deve* (debit) and the right page the *há-de haver* (credit). Within the ledger book itself, the referral system was used by means of the folio number, that is, each entry of the ledger book was associated with the folio number where its counterpart was found. The provision provides that the bookkeeping method used by the Pombaline companies was double-entry bookkeeping (private by-laws – § 29 of CGGPM, § 44 of CGAVAD and § 29 of CGPP; see also Gonçalves, 2019: 118-120).

The use of this accounting method had several advantages. Firstly, it was possible to examine and know the state of each company´s negotiations on a daily basis and, in addition, it facilitated the extraction of the states of the company's accounts that should be analysed every month at the Board of Directors (private by-laws – § 29 CGGPM, § 44 of CGAVAD and § 29 of CGPP). This method also facilitated monthly access to the summary of the debit and credit of the register box (the cash accounting book) which should be countersigned by the president, the deputies and the guard deposit box (private by-laws – § 26 of the CGGPM, § 41 of CGAVAD and § 26 of the CGPP). Finally, it also allowed access to the companies' annual balance sheet in a simple way.

The balance sheet corresponded to the product of the accounting system under discussion and fulfilled three essential functions. Firstly, it was based on this document that the rendering of accounts became effective when the composition of the Board of Directors was changed; second, it made possible to establish the amount of dividends to be distributed to the shareholders (private by-laws – § 28 of the CGGPM, § 43 of the CGAVAD and § 28 of the CGPP); and, finally, it allowed identifying the official share price of each company (Marcos, 1997: 740). In addition, the law of August 30, 1768 established severe fines for those who acquired shares below their nominal value (Correia, 1930: 164).

As in Portugal double-entry bookkeeping was little known at the time of the establishment of these companies, their first bookkeepers were of foreign origin: the one from CGGPM was *João Baptista Dourneau*, of French nationality (Oliveira, 2009: 364); that of CGAVAD was the German *João Frederico de Hecquenberg* (Sousa, 2006: 78; Oliveira, 2009: 364); and that of CGPP was *Domingos Roche Macragh*, of Irish origin (Gonçalves, 2017: 106). Along this path, *João Frederico de Hecquenberg* even

> went to Lisbon in order to be instructed in the *Grão-Pará* and *Maranhão* General Trading Company regarding the method of recording the accounts of the previous Board and thus be able to provide

shareholders with a statement of the Company's by-laws, a book then created for that purpose, and that was in the accountancy available to them (Sousa, 2006: 78).

The company status statement provided an extensive account of the debit and credit of each of the companies, showing the details of each of these items accompanied by their numerical translation, and also contained justifications for the amounts entered in the balance sheet (Marcos, 1997: 603). As pointed by Oliveira (2013: 82), this accounting statement would contain the sum of debits and credits of the company from its perspective: while the first would represent the capital invested, the retained earnings and the net income; the second would reveal the value of the assets; both should be equivalent". From the provisions, it is concluded that it represented the "extended disclosure of the data contained in the balance sheet" (Marcos, 1997: 604).

From the status statement was prepared the status summary of the companies, which included the debit and credit without the concern of explanatory notes as is normal for a synthesis (Oliveira, 2013: 84). Marcos (1997: 604-606) states that this document was especially important for shareholders, as it was through it that the official price of each share would be reached, which was calculated, according to Rodrigues, Ricardino and Martins (2009: 421), through the sum of capital and retained earnings divided by the number of shares. This calculation would be preponderant for two reasons: for the shareholders to decide whether or not to remain in the company, as they were given the chance to transfer their shares and; on the other hand, the companies' policies being equivalent to money (from 1766) (Marcos: 1997: 629-643).

5. THE ESSENTIALS ABOUT CORPORATE GOVERNANCE RULES OF POMBALINE CHARTERED TRADING COMPANIES

According to the Organization for Economic Cooperation and Development (2015: 7), corporate governance aims to "help build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies".

Interestingly, in this context, already in the 17th and 18th centuries nations were struggling with these themes, with the emergence of royal companies created, in the first instance, in Holland, England and France (Marcos, 1997: 49-50). As Marcos (1997: 52) shows, two historical models of corporate governance related to this type of companies have been developed: the British and the Continental, the latter with Dutch and French roots.

Table 3 confronts the two government models mentioned through the analysis of seven variables that characterized them.

Table 3: British government model *versus* continental government model.

Variable	*British model*	*Continental model*
Institution of companies	They were the result of private initiative.	At this point, Holland followed the models of the British model. It was in France that the royal commitment to the establishment of companies emerged.
Company government	Sovereignty was based on the General Assembly of partners. It was the same way that the administrators were elected.	The government was a collegiate body. Each of its members had to have a minimal participation. Partners could not influence the fate of the company.
Who could be a shareholder	Merchants and aristocrats.	Anyone who wanted.
Right to vote	Each partner was entitled to one vote, regardless of their amount of interest, in this sense all partners were equal.	Not initially, but as time went by, this model became more democratic so that shareholders were given the opportunity to partition in the elections of the political body.
Accountability	All members were allowed to inspect the books.	The directors tried to avoid it by defending the need for a duty of secrecy.
Profit sharing	All partners were entitled to periodic profit sharing.	Directors determined when they occurred.
State Dependency	Relative independence from the State.	When the Dutch East India Company was established, its administrators were appointed by the prince and swore an oath to him.

Source: Adapted from Marcos (1997: 49-83)

The theme of corporate governance is not recent. As stated by Rodrigues *et al.* (2009: 405), this "is a new term for an old concept". As will be clear from the analysis of the general and particular by-laws of the three monopolistic commercial companies, these were strongly influenced by the continental model of government. It is clear that *Pombal* was inspired by what was stipulated in the Dutch and French companies (with respect to the latter, especially those instituted by *Jean-Baptiste Colbert*[3]).

The work continues with the analysis of the issues related to the corporate governance of the three general Pombaline companies.

5.1 THE POLITICAL BODY: COMPOSITION AND CONDITIONS OF ACCESS

The political body of the companies was composed by a Board of Directors and, in the case of the CGPP, two directorates were also integrated. The Board of Directors of the three companies contemplated the same composition, namely: president, vice-president, deputies, secretary and councillors, changing in the number of deputies and councillors (general by-laws – §§ 1, 3 of CGGPM and CGAVAD and §§ 1, 6 of the CGPP). The two CGPP directorates, one in *Porto* and the other in *Pernambuco*, were composed of an intendant, a vice-intendant (appointed from among the deputies) and six deputies (general by-laws – §§ 1, 6 of the CGPP). These directorates were under the jurisdiction of the CGPP Board and in cases of greater importance the boards should consult the Board (general by-laws – § 1 of the CGPP).

In order to incorporate the political body, as president, steward and deputy, candidates had to fulfil several conditions, namely: (1) being a natural or naturalized vassal of *D. José I*; (2) be a resident in the respective company's operating area; and (3) have at least 10,000 *cruzados* of interest in the company (general by-laws, §§ 2 of CGGPM and CGAVAD and § 3 of CGPP). These conditions were transversal to the three companies. CGGPM added the requirement to be a merchant and expanded the range of possible candidates to residents of the entire court.

5.2 THE RIGHTS AND DUTIES OF THE POLITICAL BODY

The president and deputies were paid based on the calculation of a percentage of commission on the companies' shipments, their fleets and sales, that is, they were paid on a variable basis (general by-laws – § 25 of the CGGPM, § 18 of the CGAVAD and § 29 of the CGPP). According to Marcos (1997: 772-775), this type of remuneration was intended to guarantee the interest of the political body in pursuing the companies' objectives. It should be pointed that this orientation is also in accordance with the modern theory of the agency (Jensen & Meckling, 1976; Eisenhardt, 1989) in which a variable remuneration is one mechanism of alignment of interest between the board of directors – agents – and the shareholders – principals.

The president and the deputies should attend the sessions of the company's Board, which were held twice a week, with the possibility, if the need so indicated, of extraordinary sessions (private by-laws – §§ 7 of CGGPM, CGAVAD and CGPP). The deputies were not allowed to miss the Board meetings, but if they did, there was the possibility of being warned by the president or the monarch (private by-laws – §§ 4, 6 of CGGPM, CGAVAD and CGPP). As for the president absence, if considered that his responsibility for the smooth running of the company did not show reason or warning, there would be nothing to say; if there were any, however, the monarch could himself provide the notice (private by-laws – §§ 5 of CGGPM, CGAVAD and CGPP).

In the private by-laws, the members of the Board of Directors of each company contained a code of conduct to be followed during the sessions, which included maintaining composure, decorum and order (private by-laws – §§ 9 of CGGPM, CGAVAD and CGPP). It was also not allowed to do business in the company to satisfy personal interests (private by-laws – §§ 31-33 CGGPM, §§ 46-47 from CGAVAD and §§ 31-32 from CGPP). Among their responsibilities also lay that of granting shareholders access to accounting books. As Rodrigues, *et al.* (2009: 421) refer, access to books was not a right of shareholders, but a duty of the political body.

[3] Some of the provisions related to the governance of *Jean Baptiste-Colbert*'s companies in line with the provisions of the by-laws of the Pombaline companies are: (1) the need to have a certain number of shares in order to have the right to vote in the elections of the Board and be able to be proposed for director; and (2) the election of directors must be held by the plurality of votes (Marcos, 1997: 104-108).

It should be remembered that, to belong to the political body, the members of the Board must fulfil certain conditions. In this sense, the private articles of association established that if any of these members transferred an amount of their fraction of the share capital that would put them in possession of less than 10 shares in the fund of the Company, they could not continue to occupy their position in the Board of Directors (private by-laws – § 35 of the CGGPM, § 50 of the CGAVAD and § 34 of the CGPP), that is, they could have a share value of the Company lower than 400$000 *réis* (four hundred thousand *réis*, see in this regard Gonçalves *et al.*, 2013: 173). As Olival (1999: 77) points out, this amount was not that insignificant. As an example, the annual salary of a novice graduate bookkeeper in 1770 at the Royal Silks Factory was 100$000 (one hundred thousand *réis*) (National Archives of *Torre do Tombo*, Royal Silks Factory and Associated Factories, Book 384, sheet 95r).[4]

5.3 THE ELECTION OF THE POLITICAL BODY AND THE LENGTH OF ITS TERM

The first appointment to the positions of the Board was made by *D. José I* for a period of three years (general by-laws – §§ 3, 55 of the CGGPM, §§ 3, 53 of the CGAVD and §§ 6, 63 of the CGPP). At the end of the three-year term, the mandates were annual at CGGPM, biannual at CGAVAD and could not exceed two years at CGPP (general by-laws – §§ 3 of CGGPM and CGAVD and § 6 of CGPP). The members of the political body could be re-elected if they obtained two parts of the votes (general by-laws – § 5 of the CGGPM and § 6 of the CGPP) or two thirds of the votes (general by-laws – § 4 of the CGAVAD), at least.

The election of the president, deputies and councillors were carried out by the plurality of votes and the shareholders with the minimum value of 5,000 *cruzados* (5 shares) of interest in the company could exercise the right to vote, in the case of CGGPM and CGPP (general by-laws – § 3 of the CGGPM and § 5 of the CGPP). In CGAVAD the amount needed to have access to vote was 3,000 *cruzados* (3 shares) (general by-laws - § 3 CGAVAD). Whoever did not reach the stipulated amount could join with other shareholders until the amount indicated, in order to complete a vote (general by-laws – §§ 3, 48 of the CGGPM, § 3 of the CGAVAD and §§ 5, 53 CGPP). At the time of the election of the CGPP directorates, each deputy resident in *Porto* and *Pernambuco* should propose two people for each position (of steward and deputy), the choice being made by the company's Board in Lisbon (general by-laws – § 5 of the CGPP).

The private by-laws of the companies expanded the provisions of the public by-laws regarding the theme of the elections, namely, regarding the publication of people qualified for election and the procedures to be adopted both on the day of the election and on the day of the inauguration (private by-laws – §§ 37-43 of the CGPPM, §§52-58 of the CGAVAD and §§ 38-42 of the CGPP). It should be noted that the supervision of the elections was under the responsibility of the ombudsman who ceased to function under the eyes of two magistrates, the conservative judge and the fiscal prosecutor of each company, which was also mandatory in the inauguration of the new social members (Marcos, 1997: 704, 713).
All companies had a conservative judge (general by-laws – §§ 7, 44 of the CGGPM, §§ 7, 42 of the CGAVAD and §§ 8-9, 49 of the CGPP), as well as a tax attorney (general by-laws – §§ 7 of CGGPM and CGAVAD and § 8 of CGPP). As for the first, the companies have their own court chaired by the conservative judge, appointed by the Board and confirmed by the monarch. CGPP had two courts in addition to Lisbon, one in *Porto* and the other in *Pernambuco*. Each of these courts had a conservative judge, and these judges were paid as if they worked for the Royal Armada. No member of the political body could be arrested while serving in office by order of a court, tug of war or minister of justice for a civil case or crime (unless caught in *flagrante delicto*) without an order from the conservative judge (general by-laws – § 46 CGGPM, § 43 of the CGAVAD and § 51 of the CGPP). As for the procurator fiscal, according to Rodrigues and Sangster (2012: 1150), he served as a tax attorney.

5.4 SHARE EQUITY

The value of each share of the companies amounted to 400$000 *réis* (one thousand *cruzados*) Both CGGPM and CGAVAD had a share capital of 1 million and 200 thousand *cruzados*, which corresponded to 1,200 shares (general by-laws – § 48 of CGGPM and §§ 10, 44 of CGAVAD). As for CGPP, its social fund represented the largest amount of the three companies under discussion with a value of 3 million and 400 thousand *cruzados*, that is, 3,400 shares (general by-laws – § 53 of the CGPP).

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[4] The name of this bookkeeper was Henrique Francisco de Andrade (National Archives of *Torre do Tombo*, Royal Silks Factory and Associated Factories, Book 384, sheet 95r), an accounting student graduated from the Lisbon School of Commerce in 1770 (Gonçalves, 2017: 106).

The share capital of the Pombaline companies was mostly composed of shares subscribed by private capital. An exception to the foregoing was *D. José I*. In 1757, through *Pedro António Virgolino*, crown jeweler, he acquired 80 shares of CGGPM, becoming its largest original shareholder (Dias, 1968: 49; Olival, 1999: 76). But this was not the monarch's only contribution. It also highlights the example of the delivery by the monarch to CGGPM of two warships, as shown in paragraph 14 of its general by-laws. Also, the main minister of *D. José I*, the Marquis of *Pombal* contributed to the social fund of the first Pombaline company (Olival, 1999: 77) through the acquisition of six shares, in 1757, which gave him the right to one vote in the Board elections (Gonçalves, 2013: 681). His wife, *Leonor de Daun*, similarly showed interest in this investment when she acquired 12 titles from this company (Marcos, 1997: 551-555). On the other hand, a friend of *Pombal*, *José Francisco da Cruz*, one of those responsible for drafting the CGGPM by-laws, was noted in the investment of these consortia, as previously mentioned. According to Gonçalves (2013: 680), *José Francisco da Cruz* was a shareholder in the three companies under analysis and, in addition, a founding partner of CGGPM and CGAVAD. In addition to his contribution as a partner, *Cruz* also held the position of president at the CGGPM Board in January 1760 (Marcos: 1997, 708-709).

One aspect that deserves to be highlighted is the possibility that two of these companies offered for the realization of capital: cash contributions. CGPP offered its investors the possibility of entering the social fund through the delivery of ships that were necessary for the pursuit of its commercial activity. In this way, excessive inflows in kind resulted in a lack of liquidity for the said company (Marcos, 1997: 451). Unlike CGPP, CGAVAD, which also provided the opportunity for cash contributions, set a limit of 50%, the remainder of which would have to be paid in cash (general by-laws – § 10 of CGAVAD)

5.5 MECHANISMS FOR ATTRACTING CAPITAL AND THE PRIVILEGES GRANTED TO SHAREHOLDERS

The act of instituting companies presented a fundamental challenge for the pursuit of its activity: the constitution of share capital. In this way, several mechanisms were established to facilitate its implementation. One of the measures contemplated the granting of credit to those who, due to lack of capital, did not have the opportunity to invest. This was the case of CGAVAD, which established in its general by-laws a loan to needy farmers, which could not exceed 3% of annual interest (general by-laws – §11 of CGAVAD). Another innovative measure for the subscription of Pombaline shares was the advance of profits by CGGPM, since the first dividends would only be paid three years after the beginning of its commercial activity (Marcos, 1997: 474-476). The three companies also allowed the delivery of only half of the amount necessary to obtain the number of desired shares, with the remainder remaining to be satisfied in a later period (general by-laws – § 49 CGGPM, § 45 of CGAVAD and § 56 of CGPP). In order to encourage investment in CGGPM, investors who invested in it with a minimum amount of 10.000 *cruzados* were awarded the nobility forums (general by-laws – § 39 of CGGPM). Years later, the Board of Directors of the aforementioned company asked the monarch to extend the social privileges offered, so that the holders of at least 10 of the original shares came to be covered by the automatic dispensation of *mechanics* (Olival, 1999: 76).[5] These measures would be extended to the three companies under analysis, showing that investment in the Companies would, however, have added financial advantages, in addition to great social and legal privileges, the same that ensured the dispensation of *mechanics* to those who invested at least 10 shares of the founders, that is, at least 4 *contos de réis* (4:000$000) (Olival, 1999: 77).

[5] In Portuguese Old Regime (< 1820) the highest social recognition given by the State was the *Habilitação da Ordem de Cristo* (Order of Christ Recognition). The process was very demanding, expensive, time consuming and, above all, the candidates would have to prove, using several eyewitnesses, that their ancestors did not perform manual professions (that is, mechanical professions), such as carpenters, shoemakers, masons, *etc.*, which, at that time, were considered by society to be dishonourable and improper of the Order of Christ. This meant that, as a rule, only aristocrats were able to qualify for the Order of Christ. *Pombal*, with the automatic dispensation of *mecânicas* (mechanics, that is, the process of checking the professional background of the candidates' ancestors) for shareholders holding 10 shares, enabled the social recognition of many businessmen who, without this condition, would never be able to obtain the Order of Christ, given that they were descended from parents and grandparents of very precarious social conditions.

As the same author says, "when the *Pernambuco* Company was established, the entire social attraction device around the mechanics dispensation was already properly assembled" (Olival, 1999: 79). Proof of this is found in paragraph 43 of the general by-laws of the CGPP, which already contemplated the automatic mechanical dispensation to the purchasers of at least 10 original shares. This reason would certainly have encouraged the legislator to set the CGPP amount in the highest of the three Pombaline companies, as previously mentioned.

5.6 THE RIGHTS AND DUTIES OF SHAREHOLDERS

Under the conditions already discussed, shareholders were entitled to be elected to the political body of the companies, as well as to participate in their elections (general by-laws – §§ 2, 3 of CGGPM and CGAVAD and §§ 3, 5 of CGPP). In addition, they had the right to transfer and donate their shares (whether alive or by death) and to sell them for whatever amount they wished, subject to royal approval (general by-laws – §§ 50-51 of the CGGPM, §§ 46 -47 from CGAVAD and §§ 57-58 from CGPP). They could also receive the return of their shares and interests if the company changed its commercial government or did not grant the privileges provided in its general by-laws (general by-laws – § 51 of the CGGPM, § 47 of the CGAVAD and § 58 of the CGPP). As is clear, they also had the right to receive dividends. Only CGPP shareholders were given the opportunity to interfere in the company's governance, either orally or in writing, with the aim of adding or amending certain provisions that would contribute to a better governance and usefulness of the company (general by-laws – § 59 of the CGPP).

In return, investors could not withdraw money from their shares from the company during the period for which their privilege was in effect, which in the three cases under discussion was 20 years with the possibility of being extended for 10 years (general by-laws – § 51 CGGPM, § 47 of the CGAVAD and § 58 of the CGPP).

5.7 THE DISTRIBUTION OF DIVIDENDS

At this point, CGGPM and CGAVAD were in agreement. They established that the company's interests were divided for the first time in July of the third year, which would occur after the departure of the company's first fleet. Thereafter the distribution was annual based on the *pro rata* calculation (general by-laws – § 52 of the CGGPM and § 48 of the CGAVAD). For its part, CGPP established the payment of an interest of 5% per year until the first profit sharing, which would take place three years after the first fleet left, with the amount of interest paid being deducted from the interest to be paid to the partners. Thereafter, interests were paid every two years in the same way (general by-laws – § 60 of the CGPP).

The distribution of dividends was decided on the company's Board orally, in the presence of the conservative judge and the tax attorney. For distributions over 300 thousand *réis*, a royal consultation was required (general by-laws – §§ 7 of CGGPM and CGAVAD and § 10 of CGPP).

5.8 ACCOUNTABILITY AND AUDITING

The companies produced a balance sheet annually, as required by public by-laws, as it is necessary for the transfer of the table and for the sharing of profits (private by-laws – § 28 of the CGGPM, § 43 of the CGAVAD and § 28 of the CGPP). Note that the elections at CGAVAD and CGPP were biannual, despite that, their by-laws stipulated annual balance sheets. Let's see how accountability was processed. When the term ends, outgoing deputies should do report to the future members (general by-laws – §§ 4 of the CGGPM and CGPP). In the CGAVAD, it was up to the new elected to approve or disapprove the accounts of their predecessors (general by-laws – § 4 of the CGAVAD).

Regarding the audit, the examination of the accounts was the responsibility of a deputy of the Board, at CGCPM and CGPP (private by-laws – §§ 22 of CGGPM and CGPP). In CGAVAD, this function was held by two deputies during the two-month period (private by-laws – §§ 30 of CGAVAD). As it was believed that transparency was the enemy of business, there were no general shareholders' meetings.

6. CONCLUSION

The Pombaline companies were part of the economic work prepared by the most important Minister of *D. José I*, *Pombal*, who aimed to match Portugal with the other European powers. It is believed that he was successful in the task that was proposed, and proof of this is the fact that one of the companies he established has survived until today, CGAVAD (with the name *Real Companhia Velha*) (Sousa & Pereira, 2008: 56-57). In order to support the discussed companies, the crown interfered in their corporate life through the discreet investment of *D. José I*, the granting of privileges and monopolies and the offering of high-value goods in the initial stage of his institution.

The accounting in the analysed companies followed the same patterns, that is, all Pombaline companies used double entry bookkeeping and included three accounting books, the waste book, the journal book and the ledger book, which resulted in the balance sheet, the company status statement and the respective summary. Through this summary, it was possible for the shareholder to decide whether to remain in the company or to sell its shares. In addition, it allowed the use of shares as payment currency.

As for corporate governance, Pombaline companies adopted the model of continental government. They had their social capital divided as shares. At this point, some nuances differentiated the three companies, namely: regarding the composition of the Board of Directors, CGPP being the one with the most complex composition, contemplating two accessory directions. The conditions to integrate the political body, all companies had admission requirements, however, CGGPM demanded an additional condition, that of being a merchant and widening the range of possible candidates to residents of the entire court. Concerning the amount of share capital, CGPP had the highest amount; as for cash contributions, CGGPM was the only one that prohibited this hypothesis from its shareholders, however, CGAVAD safeguarded itself by establishing the maximum limit of these contributions at 50%, whereas CGPP identified liquidity problems for not having set an limit to this type of contributions to the company social fund.

In order to attract investors, the companies established several mechanisms, such as the realization of part of the shares subscribed at a later time, the advance of profits to shareholders and the granting of loans to those who, due to the lack of capital, were unable to invest. The partners were surrounded by pleasant rights only by being asked in return not to withdraw their funds from the company for as long as it was in operation.

This article agrees with the idea that "the desire to document changes in accounting and to explain such changes, identifying their causes, has been, for many decades, one of the main motivations for research in accounting history" (Gomes & Rodrigues, 2009: 212). In addition, it intended to contribute to the satisfaction of the challenge launched by Rodrigues and Sangster (2012: 1159): to explore the Pombaline companies in order to identify their similarities and dissimilarities. In addition, the study intended to contribute to the dissemination of knowledge about Pombaline companies because, interestingly, these entities separated from today by two centuries contained provisions similar to those found today in publicly traded companies in Portugal.

In closing, it is suggested to continue the elaboration of comparative studies that regard the Pombaline institutions. As an example, it would be interesting, in the future, to integrate the Royal Silks Factory in this study in order to explore the similarities and differences between this institution reformulated by Pombal and the companies established by him.

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