

# Merchants' accounts, performance assessment and decision making in mercantilist Britain

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## Abstract

The part played by double entry bookkeeping (DEB) in the rise of capitalism in Western Europe has been the subject of academic attention and debate for more than a century [Miller, P., & Napier, C. (1993). Genealogies of calculation. *Accounting, Organizations and Society*, 18(7/8), 631–647]. Our interest in this topic was aroused by sources of relevant comment concerning early uses of DEB identified in Chambers' *An Accounting Thesaurus* (1995). In this paper these sources, augmented by a systematic search of surviving treatises on DEB published in Britain between 1547 and 1799, comprise extended evidence that enable us to make “justified statements” [Napier, C. J. (2002). The historian as auditor: Facts, judgments and evidence. *Accounting Historians Journal*, 29(2), 131–155] in support of the notion that writers encouraged a “capitalist mentality” [Bryer, R. A. (2000a). The history of accounting and the transition to capitalism in England. Part one: Theory. *Accounting, Organizations and Society*, 25(2), 131–162; Bryer, R. A. (2000b). The history of accounting and the transition to capitalism in England. Part two: Evidence. *Accounting, Organizations and Society*, 25(4/5), 327–381] among the rising merchant class. They did this by communicating to merchants the potential of DEB for presenting economic events in a financial form that enabled them to evaluate the amount and profitability of their business investments and provided data on which to base decisions designed to enhance the “Value and Condition of his Estate” (Stephens, 1735, p. 4). Further, based on the known occupations of these writers and drawing on knowledge of the operation of an international trading enterprise, the Hudson's Bay Company, we speculate that DEB might have played a part in helping owners manage their affairs during the major economic and social developments that are known to have occurred in Britain and Western Society more generally between the 16th and 18th centuries.

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## Introduction

Sombart's *Der moderne Kapitalismus* (1902) identified three stages in the development of capitalism:

early capitalism (from the 13th to the middle of the 18th century), full capitalism (from the middle of the 18th century to the First World War) and late capitalism (Chiapello, 2007, p. 265). Herbert Heaton sees a dramatic economic transformation of Britain's position in Europe during the period of early capitalism (Heaton, 1948, p. 307; see also Davis, 1967, p. 3; Coleman, 1977, esp. Chapter 4):

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Tucked away in the top left-hand corner of the map of Europe, fifteenth century England was an unimportant, unfortunate country. ... The picture contrasts strongly with that of the mid-eighteenth century. By 1750 the population had almost trebled and was growing quickly. Commercial agriculture covered much of the country, some grain was being exported, but wool was kept at home by law for use in a cloth industry that was now the largest in Europe. The production of metal goods was highly developed, and coal fired a wide range of industries. British merchants, using British ships, were firmly established in most European ports, in the oriental and African trades, and in every kind of traffic with the Americas. Emigration and conquest had created an empire with thirty transatlantic colonies.

The 17th and 18th centuries saw “The commercial revolution [which] has quite rightly been identified with product diversification and the expansion of long-distance trading” (Ormrod, 2003, pp. xiii–xiv) whose “consequences were so important, not only for the development of merchant organization and services ancillary to trade, but also in wider fields of capital accumulation and investment” (Davis, 1967, p. 3).

Mercantilism, though not an unproblematic notion (Perlman and McCann, 1998), is widely recognised as the prevailing philosophical and economic framework during this period of rapid economic growth. The term “denoted the pursuit of economic power in the sense of economic self-sufficiency. Its underlying idea was to establish the power or strength of the State by making it independent of other States in the economic sphere” (Lipson, 1948, p. 1). Allied to this was the belief that the state’s power depended on its wealth as measured by the amount of precious metals, particularly gold, in the state’s treasuries. For countries not naturally endowed with these resources, such as Britain, precious metals could be obtained by conquest or trade. A government’s task was therefore to create an environment within which trade flourished and a nation’s wealth was increased; for example, by granting monopoly foreign trading rights to its businesses and instituting protectionist measures designed to discourage imports from abroad.

The purpose of this paper is to consider whether the information made available by the system of

double entry bookkeeping (DEB) then in operation contributed to the more efficient conduct of business activity in Britain and probably elsewhere in major European trading cities such as Venice, Florence, Bruges and Amsterdam. In doing so, our paper focuses on what Napier (2008, p. 31; see also Bryer, 2000a, p. 131) categorises as “history of accounting” studies in contrast with “socio-historical accounting research” which focuses on how accounting impacts on particular individuals, organisations and society in general. “History of accounting” is more concerned with the study of accounting as a set of procedures or practices, though “likely to go beyond simple description in order to develop understandings” (Napier, 2008, p. 31) – in this case to help comprehend whether DEB was thought by contemporary writers to support capitalist enterprise and, thereby, economic progress in Western Society.<sup>1</sup> We pursue our objective by studying the content of DEB treatises published in Britain between 1547 and 1799 (Table 1).

The start of this period saw the formation of joint stock companies to satisfy a business organization’s capital requirements, such as the Muscovy Company founded in 1555, the Spanish Company 1577, the Levant Company 1581 and the Senegal Adventurers 1588 (Minchinton, 1969, p. 7; Davis, 1973, p. 43). But a “key figure in the expansion of English overseas trade was [also] the individual English merchant” (Minchinton, 1969, p. 3). Indeed, “the main agents in the growth of the Atlantic trading area were the English merchant or the small trading partnership rather than the chartered trading companies” (Minchinton, 1969, p. 3; see also, Davis, 1973, p. 41, p. 43).

In this paper, we reveal the ways in which authors argued DEB could be of service to merchants, both large and small, by “shewing what one’s free *Estate* is worth” (Malcolm, 1731, p. 3), by providing a means whereby “Alterations that have happen’d” to “a Man’s Estate are discover’d” (Mair, 1736, p. 2), and by supplying “a perfect reason of the Increase and Decrease of ones Estate” (Monteage, 1675, Preface). The evidence we present shows that these writers saw accounting as a means to enable merchants to better manage their affairs and, thereby, increase their capital as reflected in the rising value of their “Estate”. Where there was more

<sup>1</sup> Books dealing with charge and discharge accounting and its potential for systematic accounting are not examined here.

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