

Accounting Practice In North Borneo: Changes Within 1881-1941¹

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ABSTRACT

The dynamic of accounting practice as part of social system is acknowledged. It interacts with environment to respond to environmental pressure and the ever changing needs of enterprise. This has extended the understanding of accounting from a mere technical and neutral practice to a socially and politically related activity. As such efforts have been devoted to understand how accounting changed and developed over time in public and private sector. Historical investigation is getting popular in an effort whereby accounting development is narrated through societal development concerning social, economical and political phenomenon. This is particularly important in the context of public sector whereby historical aspects of accounting practice describe previous practice, explain the existing practice, and prescribe the future practice of accounting. The mobilisation of accounting practice in social, economical and political phenomena describes and provides informative and authoritative

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evidence on the relationship of accounting to its environment and consequently on how accounting change occurred. This could lead to a prescription, practically, on how to manage and harness accounting change. This paper presents evidence of such a claim through a historical investigation on accounting change phenomena during the colonial era in North Borneo. Such a comprehensive investigation that covers the period of 61 years (1881-1941) provides a thick description to understand the previous practice and how it influences the accounting in practice currently. Extensive review on archival documents in the Archive Department of Sabah illuminates evidence of accounting change process during the period under study.

Keywords: Accounting changes, history, North Borneo, imperialism, colonialism, British North Borneo Chartered Company.

INTRODUCTION

The interests to understand accounting practice and accounting in practice have lately motivated researchers to study changes in accounting. It is to describe accounting change process and to prescribe how the change process should be managed so that issues facing accounting practice, such as accounting lag, can be handled by both scholars and practitioners. Since then, accounting change becomes one of the most researched field study. Results from those researches demonstrate the dynamism of accounting practice, explaining the developmental phases and their characteristics, as well as illuminating the social nature of the practice.

Historical investigation is getting popular in this context. Through historical investigation accounting change process can be explained in a more authoritative manner by virtue of historical evidence, detail analysis on processual² (Dawson, 1994) track and thoroughness of its contextual relationship. It is in line with an increasingly accepted view amongst accounting scholars that investigation on accounting phenomena must not be limited within its technical rationality, or within aggregated financial results and a narrow focus on the structure and contents of the annual report (Gomes et al. 2011), rather, to capture as well its interrelatedness with social, cultural, and economic context (Hopwood, 1987; Bryer, 1993b). This, as they claimed, offer better description of the accounting change process. Historical approach enables the investigation process to encompass the political and ideological element of accounting practice along the investigation process.

One of the arenas in which accounting historical researches have been grounded is colonial process of imperialism. This colonial process makes accounting changes traceable via its involvement in collectivistic social arrangements within a colonial regime. Indeed, accounting plays a significant role in the process of capital exchange and business transactions during the era of colonial. This provides an informative context to investigate accounting practice and simultaneously the change process that occurred. It provides evidence on the interaction between accounting and its

² *Processual track is a term made popular by Dawson (1994) who argues the importance of understanding accounting historically and contextually, by tracking, explaining and comparing the attributes of the practice at a particular time as compared to other point of time.*

changes on one hand with their contextual setting on the other. Investigation on such an interaction enables understanding on accounting change process and information about its other related aspects, such as forms, attributes and motivation of the change process.

This paper presents a case of accounting change process during a colonial era in the North Borneo (now Sabah, one of the states in Malaysia). North Borneo was made a colony by the British North Borneo British Chartered Company (BNBCC) in 1881 and this research covers the period of 1881-1941 when a British's Chartered Company ruled the area. Further analysis divides the period into three; Period I (1881-1890), Period II (1890-1914), and Period III (1914-1941).

The subdivision of the period was based on the findings that demonstrated significant differences in accounting practise between the periods which were attributable to the stages of economic development in the area as well as characterized by major economic trends such as recession and political turmoil (WWI and WWII). The case illustrates that the form and focus of accounting practice had changed from one period to another due to pressure and environmental changes experienced by the enterprises. Therefore the case illustrates the process of how accounting technology developed, changed and mobilized to supplement the needs of the dynamic environment, and the role played by the business managers as the agent and medium of accounting technology transfer as claimed by a number of accounting historians.

In section 2; the following section, the relationship and position of accounting within imperialism and colonialism is

presented. Historical background of the North Borneo and colonial occupation is discussed in section 3. Section 4 explains the methodological option of the research. Finally, section 5 and 6 present the findings and discussion section of this paper respectively, after which the concluding statement is given.

IMPERIALISM, COLONIALISM AND ACCOUNTING

The influential roles of imperialism and colonialism to characterize the historical landscape of the world have been well addressed by many. Imperialism and colonialism changed many aspects of the community, particularly those in the colonies, to whom the ideology is being imparted and grounded ranging from physical to ideological setting of the colonised community. Therefore, much of the attributes of colonial physical and intangible structures in the past are traceable in today's economic, political and administrative systems of the former colonies. It was found that some negative and positive effects of colonialism and imperialism to former colonies have been so profound, lasting until today, particularly in the area of socio-economic and politics. Angeles (2007), for example, highlighted the problems of current income inequalities among former colonies as a persistent negative effect of colonialism. Meanwhile Huff & Angeles (2011) and Ferguson (2003) relate the urbanization and industrialization as well as investment flow as the positive effects. The social impact of imperialism and colonialism has, therefore, been highlighted in various manners, such as cultural, social, economic, religion, and politics. However, this paper will not be focusing on those

impacts; instead, it concentrates on the roles played by accounting and tracking the changes that had happened along the process.

Imperialism implies the process of enforcing political power and control as well as exercising economic domination over a colony by a centralized and ultimate source of power (Wesseling, 1986, p. 2). It is characterized by the act of intrusion and conquest, subjugation, economic exploitation and domination of indigenous peoples by the capitalists (Thomas, 1994, p. 1). Such an act is therefore referred to as the process of colonialism through which the effort to conquer colony and its indigenous is justified by the said centralized power (Wesseling, 1986, p. 8).

In the process of imperialism, particularly during 19th century, the utopian ideas of communal social organization became the reason behind the expansion of power of the colonials. According to that idea the advancement of society, happiness, equality, justice and other values in life should follow those developed and established by the colonial. Therefore, during the period the colonials reorganized society in the colonies in the name of imperialism and capitalism (Owen, 1841). The imperialists believed that it is the responsibility of colonials to change and develop society in the colonies. It was to be done mainly through economic approach by way of entrepreneurial ventures, envisaged via explorative and manipulative economic and commercial activities which most of the time resulted in political interference or even, in some cases, religious disputes and sentiment of the locals.

The instrumental roles of accounting in enhancing imperial and colonial process have been recorded by many. Annette and Neu (2004) review of this matter is considerably extensive. As such accounting has been regarded as an important discourse to understand colonialism and imperialism (Davie, 2000; Newbury, 2004). Accounting has been mobilized by the colonialist to support, sustain and legitimize the expansion, maintenance and control of the triangular relationship of colonialism, capitalism and imperialism (Bakre, 2008). To impart the power and reinforcing it onto the locals, accounting as a tool was credible enough to convince parties involved in transaction to sell and purchase land. Accounting enabled the value of land and political power to be exchanged (Neu, 2000a). In controlling the locals, or worst; manipulating the locals, the role of accounting has also been evident. Not only jeopardising and denying the rights of the locals (Davie, 2005), they are forced to slavery (Hollister & Schultz, 2010) and dispossession and devastation (Buhr, 2011) through colonials exploitative and oppressive acts of organizing indigenous labour (Davie, 2007). Worse, accounting had been mobilized in British West Indies to maintain slavery (in different form) after its abolishment in 1834 by way of creating complex synthesis of indoctrination, punishments, and incentives (Tyson et al., 2005) or to the worst; they manipulated accounting in a number of colonialism's genocide acts (Neu, 2000b). In brief, the colonial roles of accounting have been substantial before, during, and after the colonisation as elaborated by Bakre (2008).

According to Bryer (2000b) by 18th century accounting was adequately established to

consider good management practice and accounting profit based on the information gathered. In 19th century more complicated roles affected accounting to capture a more complex environment of capital and assets transaction, such as capital appreciation, asset depreciation, and cash management. Capital management in 18th century accepted managerialism concept in which accounting process had to address the accountability structure in the relationship between owner-manager, the role and function of independent audit process, and the move towards more accrual-based accounting. To sum up the discussion on the progression and characteristics of accounting practice in 19th century, and to distinguish it from the previous one, Bryer (1993b) asserts that decision making started to rely on cost-based accrual accounting in the expense of preoccupied economic-based valuation.

Among the capitalists themselves, accounting has been accepted as a common way to talk about the enterprise, evaluate possibility and assessing profitability, estimating the risk, and expecting the return. Briefly, accounting was applied as a medium of communicating business affairs, interpreting economic object and events, hence, accelerating the intended responses and decision making among the capitalists with regards to their interests. Such a position of accounting is traceable to as early as 13th century when the concern over equal return for equal capital was first developed in conjunction with the commercial revolution (Bryer, 1993a). In that notion accounting can be regarded as an ideology by which the belief about economic transaction is formed and legitimized, strengthened, evaluated and

progressed (Cooper, 1980). The proponent of an ideology therefore utilizes accounting to provide purposive economic rationale in the interest of a particular powerful and forceful group in society.

As the conviction about the active role of accounting in imperial and colonial settings significantly being noticed, literature has started to acknowledge wider role of accounting beyond its neutral and technical boundary, to consider also political and social aspects (Cooper, 1995; Bakre, 2008). The political and social roles of accounting during the colonial era have enabled business and transaction to take place locally and between and among countries at the international level. The supply and monitoring of capital, mechanism to measure and making decision, and planning of investment by colonial was made possible via accounting practice. Interests of colonial and shareholders over their fund and investment were safeguarded via accounting check and balance mechanism (Arnold & Sikka, 2001). In the same vein Bakre (2008) claimed that the use of accounting to produce information that attracted investor to supplement cash requirement of colonial government was evident.

Accounting, through its ideological strength and technological advancement has enabled economic activities to progress. By inculcating calculative mentality, for instance, accounting provides a logical structure to be referred to by various stakeholders to understand, interpret, and to respond to economic information. More importantly is its role as a medium for interested parties to share similar language and understanding about transactions and their economic consequences. Its

technological substance, in the mean time, provides a standard and reliable measure to interpret the process and outcomes of a particular economic event. Although the theoretical and ethical aspects of these ideological and technological components of accounting remain debatable, their role and position in economic progression is widely acknowledged. One of the important functions of accounting in that manner is to clarify and objectify broad economic concepts. This enables the meaning of economic activities; particularly the input, process and output, to be signified and justified. In this notion Weber contends that calculative mentality of modern capitalism, via accounting technology, enabled the maximization of the rate of return and capital distribution to be visible (Bryer, 2000b).

Capitalism's profound effect on society encouraged economic and accounting historians to hypothesize the importance of double entry bookkeeping to its development. The need for more capital to synergize more explorative investment led to the accumulation of funds contributed by many investors. This was considerably more complicated than before where capital was generated through a relatively limited number of source, such as family members or a group of fund providers with certain informal forms of relationship. As the former was more complicated it needed a more accountable management system. With regards to its accounting system it must be able to capture the needs to address the issues of accountability structure. With a much bigger amount of funds contributed by many whom did not have informal relationship, the accountability structure was more demanding as well. A more reliable accountability structure also demanded the

agency structure of enterprise management that relied on professional managers to run and look after operation in colonies.

As the capitalists' activities expanded the accounting practice has also progressed and changed. With regards to the expansion of capitalist activities and their relationship with the progression of accounting practice, Sombart (1953) argued that the continual reinvestment of the profits earned depended on the existence of a capitalist form of double-entry bookkeeping. Double-entry bookkeeping in this context allows investors and managers to measure the return on investments as a means of making rational business decisions. The transfer of accounting technology from capitalist countries to colonies in line with the expansion of over sea trade and investment has been well addressed by Samkin (2010).

Hence, this paper attempts to explore the phenomena of accounting practice, from a historical perspective, by looking into the changes occurred during the tenure of a British Chartered Company in the North Borneo. As the notion that accounting has changed, is changing, and certainly to change in the future is accepted (Napier, 2006) the importance to understand the past in order to explain its present and future has been acknowledged by many for years (Mills, 1993). This paper insists, therefore, that it is important to understand the practice and change process of accounting during the colonial era of the North Borneo in order to understand the current practice.

In Southeast Asian region, particularly the North Borneo, colonialism process started to embark during the later part of 19th century. Accordingly, traditional political organization

in that area was swept away and replaced by colonial rule with centralized administrative and legal systems (Huff & Angeles, 2011). The position of North Borneo during that era, as the background of this study, is explained in the following section.

HISTORICAL BACKGROUND OF THE OCCUPATION IN THE NORTH BORNEO

This paper upholds the importance to understand the dynamic phenomenon of accounting practice. As a social practice, how and why accounting practice changes and developed over time must be understood. Not only to provide an answer to those questions, how the current practice related to the previous one, should also be explained. As mentioned by Bryer (2000a), to understand, be able to explain, and appreciate social significance of accounting today we must understand its technological and ideological parts as products and producers of history. Through the archival evidence and other reliable references, this paper provides a useful and authoritative reference for the future generation to refer. To quest such an accounting context of the past, this paper investigates the changes and development of accounting practice during the Colonial era in the North Borneo within the period of 1881-1941.

The period of 1881-1941 was the era when North Borneo, as the State of Sabah (of Malaysia) was formerly known before the World War II, was under the administrative power of a British Chartered Company; The British North Borneo Chartered Company (BNBCC hereafter). BNBCC functioned as a governmental entity with legal and bureaucratic structure empowered by

Central Government of British in London. For about 61 years BNCC had ventured into the economic activities in the area, particularly in the form of agricultural and fishery activities, as well as extracting mineral resources and forest produce of North Borneo. Those products were mainly exported to the overseas market, such as America, Netherland, England, other countries in the European continent, Japan, China, and Hong Kong.

Economic activities were carried out by the companies and enterprises those who opened up their plantation and mining area, built up processing centre, and investing their money. Most of the capital providers or shareholders came from established capitalist countries, such as England, US, Netherland, Spain, France and Germany. The activities ranging from the plantation of rubber, tobacco, cocoa, Manila hemp, processing of sago and marine product, mining of coal and gold, to the harvesting of natural products such as bird nest and timber. As a commercial entity that operates for profit and taking care of shareholder's investment, those enterprises were deemed to be dependent on accounting on financial and accountability matters. Accounting was mainly used for performance measurement, planning and decision making, and fulfilling accountability requirement in the relationship between managers and shareholders. BNCC as a government entity (in North Borneo) was also practiced comparable form of accounting practice as they needed to consider also the interest of their shareholders (in London) who invested their money on commercial basis.

As the economic and commercial activities within the area of North Borneo progressed

during colonial era, the accounting practiced also changed. Although the practice was not totally similar for companies that come from different countries, many characteristics of their practice can still be compared to trace their similarity in order to map certain common ground of accounting practice and the changes that occurred. For example cost control effort and emphasis on labour cost component, at certain period, were the main focus among the companies. The emphasis on the same issues in their respective accounting practice was evident because they shared the same pressure on the aspect. These phenomena were observable via the financial and accounting record as well as other related archival records.

Throughout the period under study (1881-1941) accounting practice changed as the economic and commercial activities in the North Borneo progressed. The progression was not only characterized by the increases in the quality and quantity of economic activities but also a series of financial crisis, economic downturn, political haywire, market crash, and power conflict. To capture the essence of accounting changes during the period under study this study employs historical approach of investigation process described in the following section.

METHODOLOGY

The orientation of this study is historical in nature. Examination on the changes of accounting practice during the specified period is conducted focussing on contextual and progressive settings affecting accounting practice. Essentially the attributes of accounting practice, the

rationale behind it, its developmental phase and pace, and the environmental changes occurrences become the focus of this study.

This study examines the archival records that are directly and indirectly related to the accounting practice during the identified period. Accounting records and financial reports are the main source of data because they provide specific description on how accounting was practiced. The processual examination offers comparative analysis to describe and prescribe the change and developmental process of accounting practice. In addition, informative source of data in relation to accounting practice was obtained from the archival records of economic and commercial activities in the North Borneo itself as well as those reported at the international level. Historical evidences affecting the economic and commercial arena during the period under study provides contextual settings of the accounting practice. It is particularly relevant if the notion of accounting practice, both as a medium and product within such a context, were to be considered.

This research synthesises both qualitative and quantitative historical data available at The Sabah State Archival Department³. Besides employing qualitative methodology that usually dominate accounting historical analysis, this research applies basic statistical analysis in the form of descriptive analysis on financial records of the North Borneo, as proposed by Gomes et al., (2011) who insist on the application of both methodologies to enhance the rigorousness and credibility of an accounting historical research. An examination was carried out on

³ *Department responsible to keep and maintain archival records for the State of Sabah, one of the states in Malaysia.*

the abovementioned records covering the period of 61 years (1881-1941). They are in the form of annual financial statements and periodical accounting reports. Other financial-related records were also examined, such as minutes of the company meetings, periodical reports, and newspaper cuttings. Archival accounting-related records were examined to detect their ideological and technical aspects. Periodical reports submitted to the third parties, for example, provided evidence of accounting technology while internal reports such as cost analysis and the like demonstrated the ideological parts accounting practice. These evidences were validated with other supporting evidences, such as economic reports, and policies set by regulatory bodies. They were later analysed through a method called pattern modelling (Johnson, 1996). Further validation was carried out by comparing the findings with other researchers' findings and their theoretical assertions.

FINDINGS

The changes in accounting practice in the North Borneo during the period under study (1881-1941) can be divided into three periods of developmental process. The first period was the **exploration phase** whereby BNCC and other investment companies started to explore the economic potency of North Borneo. It happened for about ten years (1881-1890). The second period was the **competition phase** whereby the economic activities in the North Borneo started to be exposed to international market trend and global market challenges. This period was about 25 years (1890-1914). The third period was the **recovery phase** whereby BNCC and companies

in North Borneo were struggling to recover from the economic turmoil that caused by the WWI that occurred within the period of 1914-1918. It happened for about 27 years (1914-1941) before the WWII started in 1941. Accounting practiced during these periods was distinguishable as each of them experienced different environmental pressure and technically they have to response to different economical and industrial needs.

During the period of 1881-1941 the economic landscape and commercial activities in the North Borneo had changed dramatically in response to the aspiration of the shareholders and the trends of the global market. Along the line accounting practice in the North Borneo, as an important part of the economic activities and commercial enterprise, had also changed to supplement the needs of the business activities and commercial enterprises. The practice of accounting, both in its ideological and technological terms, had been mobilized to support interested parties in dealing with their interest, ranging from the planning process, implementing and executing the investment programs, monitoring and controlling the results, as well as evaluating the performance. Investigation on the accounting practice and the change process that occurred along the period had characterized three consecutive periods whereby the practice was distinguishable and the change processes were traceable through three change properties; form of practice, focus of practice and the environmental factors that were influential to those changes.

Period I (1881-1890) – Exploration Phase
BNBCC started to conquer North Borneo

in 1881 after temporarily granted to a provisional entity; The British North Borneo Provisional Association Limited. The entity was purposely formed to enable Gustavus Baron Von Overbeck and Alfred Dent to apply for a formal charter to British Central Government in London to take charge of North Borneo⁴. BNBCC started to explore the economic potent of the North Borneo immediately after the Royal Charter was granted by the Parliament of British. Apart from exploiting its economic resources the British Government also appointed BNBCC as the caretaker of North Borneo to safeguard its political interest to sustain its imperial policy and colonial agenda. While considering its own economic and commercial agenda, as a proxy of British Government in the North Borneo, BNBCC had to consider too the political strategy of the former.

In the early stage efforts were devoted more to attract investors and their capital to North Borneo. Intensive capital inflow was needed to finance the development of infrastructural facilities in the area, such as road and telegraph, ports and shipping facilities, public amenities, police and security measure, and other operational requirements. To attract investor not only physical infrastructure was required, financial incentives and promotional activities were also necessary. Those efforts were deemed necessary to convince investors towards the economic potent of North Borneo. However, the effort to attract direct and indirect investments

⁴ *Overbeck was a General Consulate of Austria-Hungary who, earlier on, attempted to get the lease of the area from The American Trading Company. The later was granted the leasing right by the Sultanate of Brunei in 1965. Alfred Dent was the director of Dent Brothers and Co. who was successfully influenced by Overbeck to enter into an agreement to form BNBCC.*

**Table 1: Statistics Of Import, Export And Trade Balance Of
The North Borneo Between 1881-1941⁵**

Year	Export	Import	Trade Balance	Year	Export	Import	Trade Balance
1881	145,443	160,658	(15,215)	1912	5,662,908	5,476,214	186,694
1882	133,655	269,597	(135,942)	1913	7,398,128	5,438,897	1,959,231
1883	159,127	428,919	(269,792)	1914	6,260,281	4,755,283	1,504,998
1884	262,758	481,413	(218,655)	1915	865,561	522,648	342,913
1885	387,757	626,776	(239,019)	1916	1,014,142	500,933	513,209
1886	524,724	849,115	(324,391)	1917	1,076,074	624,478	451,596
1887	535,267	958,642	(423,375)	1918	1,019,094	761,358	257,736
1888	525,875	1,261,997	(736,112)	1919	1,453,990	925,235	528,755
1889	701,433	1,799,620	(1,098,187)	1920	1,405,772	1,284,438	121,334
1890	901,290	2,018,089	(1,116,799)	1921	922,616	900,668	21,948
1891	1,238,277	1,936,547	(698,270)	1922	957,333	800,933	156,400
1892	1,762,216	1,355,864	406,352	1923	1,213,845	770,987	442,858
1893	1,780,593	1,116,714	663,879	1924	1,301,715	827,662	474,053
1894	1,698,543	1,329,066	369,477	1925	2,083,800	854,399	1,229,401
1895	2,130,600	1,663,906	466,694	1926	1,987,233	970,319	1,016,914
1896	2,473,753	1,882,188	591,565	1927	1,803,934	1,050,043	753,891
1897	2,942,293	1,887,498	1,054,795	1928	1,332,207	995,411	336,796
1898	2,839,844	2,419,087	420,757	1929	1,362,738	964,340	398,398
1899	3,439,560	2,456,998	982,562	1930	1,049,472	744,729	304,743
1900	3,326,621	3,178,929	147,692	1931	817,717	447,995	369,722
1901	3,382,387	3,262,763	119,624	1932	677,751	390,541	287,210
1902	3,671,004	3,807,621	(136,617)	1933	702,526	394,093	308,433
1903	3,621,000	3,229,309	391,691	1934	1,129,804	515,899	613,905
1904	4,272,671	2,896,262	1,376,409	1935	912,234	554,772	357,462
1905	4,537,486	2,836,676	1,700,810	1936	1,048,339	560,545	487,794
1906	4,857,943	2,988,976	1,868,967	1937	1,667,788	742,226	925,562
1907	4,332,913	2,921,100	1,411,813	1938	1,111,340	723,552	387,788
1908	4,572,011	2,754,788	1,817,223	1939	1,345,349	649,977	695,372
1909	4,575,612	2,918,307	1,657,305	1940	2,027,050	997,841	1,029,209
1910	4,609,021	3,801,306	807,715	1941	NA	NA	NA
1911	4,836,795	4,603,071	233,724				

⁵ Extracted from the archival records of *The North Borneo, 1881 - 1941*.

was rather difficult for BNBC. Despite its promising economic return potential investors were sceptical about the operational and financial risk of such a long-term investment in physical development. The existing shareholders, in the mean time, particularly those of BNBC, expected instant return from their investment. As such annual shareholder meetings were used to be disrupted by the issue of dividend payment, as evident in the archival records of the companies' meeting. Meanwhile the sceptical perception on the potential return of investment in North Borneo was also badly affected when it was compared with other established colonies such as Hong Kong, India, Indonesia, and Africa. Worst still, some simply compared the expected return with a better return of conventional and lower risk investment such as money lending and deposit business in London. This was particularly evident among the potential investors as can be observed in published articles during the period.

Such a vigilant and meticulous analysis by investors was an impediment to the effort to accelerate business and development activities in the North Borneo. As a consequence North Borneo recorded a negative trade balance during the period as depicted in Table 1. Much of the revenue generated by the North Borneo during the period was contributed by tobacco that reached its peak performance towards the end of 1890s. Tobacco was first introduced in the North Borneo in 1883 by Mr. A Mc D Gibson and it reached London market by 1885. Thereafter, the plant gained its reputation, became the main commodity before experiencing a disastrous price problem due to the enforcement of McKinley Tariff Bill by the Senate of US in 1890 to

protect local tobacco planters in US. Few other commodities were also explored such as rubber, copra, Manila hemp, coffee, pepper, sugarcane and fruits.

The priority of BNBC during the Period I was obviously the establishment of basic infrastructure and physical development. However, as a government, BNBC was relying very much on indirect revenue, such as tax and service charges imposed on individuals and trading companies. Such a wide area of North Borneo really needs a significant amount of developmental and capital expenditure for BNBC to administer. As such, the amount of revenue generated by BNBC as a government was too small to cover administrative costs of North Borneo. Other enterprises operated in the North Borneo were also struggling to generate a satisfactory yield except for a number of tobacco planters managed to secure a reasonable dividend rate.

Simple and straight forward accounting was practiced during the period which mainly served the basic purpose of recording and reporting. Recording of capital, asset, income and expenditure was to scrutinize the utilization of fund while expenditure and income records were to analyze and itemize operational and production costs. Financial reports, as attached and presented in shareholders meeting, aimed at providing proper record for the receipt and disbursement of fund, particularly to record the procurement of asset, purchasing of material, payment of labour and other operational costs. Cost per unit of production and elemental portion of labour, material, and overhead costs were the main element in production reports.

Figure 1: Cost Structure Of Cultivating Black Pepper⁶.

PEPPER :—COST OF CULTIVATION.			
1st. year.			<i>Per acre.</i>
Superintendence	..	..	R10.00
Felling,* chena	..	..	8.00
Nurseries	..	..	10.00
Weeding 8 months	..	..	8.00
Lining	..	..	1.50
Holing	..	..	9.00
Filling in	..	..	9.00
Draining and roads	..	..	12.00
Planting and shading pepper	..	..	6.00
Planting cotton	..	..	2.00
Tools, buildings, contingencies, etc.	..	..	20.00
			<hr/> R95.50 <hr/>
2nd. year.			
Superintendence	..	..	R12.00
Nurseries	..	..	2.00
Weeding	..	..	12.00
Roads, drains	..	..	1.00
Terracing	..	..	8.00
Manuring	..	..	5.00
Pruning and training vines	..	..	3.00
Supplying	..	..	1.00
Buildings, contingencies, etc.	..	..	10.00
			<hr/> R54.00 <hr/>
3rd. year.			
Superintendence	..	..	R12.00
Weeding	..	..	12.00
Roads, drains	..	..	2.00
Manuring	..	—	10.00
Pruning, training vines	..	—	3.00
Supplying	..	—	1.00
Building, etc.	..	—	10.00
			<hr/> R50.00 <hr/>

⁶ *The British North Borneo Herald, No. IV, Vol.1, 1st September 1883, p.28*

Details of operational costs of those companies were made available to BNCC management for analysis and recommendation. It was published in the North Borneo Herald for the existing companies and the potential investor to take note. Figure 1 depicts an example of published operating cost of cultivating black pepper as published in The British North Borneo Herald in September 1883. Officials of BNCC used to publish their analytical report on the comparative operational and production cost among companies in North Borneo. Sometimes similar information from other colonies was also comparatively published.

Although the form of accounting practice during the period was considerably simple and straightforward, its legitimate position and function among the managers and enterprises were noticeable, particularly as a dominant medium of business communication, sensible mechanism of valuation, and authoritative judgemental elements in decision making. Expenditures such as plant and plot maintenance were classified interchangeably between development and operational expenditure. The process of income recognition was also inconsistent whereby sometimes non-revenue receipts were recorded as an operational income.

Accounting reports used to be the main agenda in shareholder meeting, with its technical aspect rarely questioned, and heavily relied on to judge the firm and managers' performance. Evident in the official gazetted reports of BNCC was the compulsion for the industries to together develop North Borneo. As such operational and production costs were made publicly

available for them to learn from each other. Based on that, the element of competition in its real sense was not discerned at that stage. Meanwhile, cost accounting practiced, based on the published reports, was so basic that it only included cost of material and labour and total and unit cost. In that sense, the progression of cost accounting in North Borneo, during 1881-1890, was lagged behind colonial countries or other colonies as researchers reported that cost accounting in other colonies during the era had already been developed since the beginning of 19th century (see Antonelli et al., 2009; 2008).

The accounting practice started to take a more complicated form at the end of 19th century. As mentioned by Antonelli et al., (2009, p. 492) such a change used to be "*hand in hand with the growth of the business, a rise in competition and the development of an increasingly complex internal structure that followed a strategy of vertical integration*". It is in line with the opinion of Bryer (1993b) who claimed that cost-based accounting started to gain attention in the late 19th century to overcome the shortcomings of conventional or economic income based accounting. Therefore, subsequent to that, another form and focus of accounting practice had emerged as elaborated in the following section.

Period II (1890-1914) – Competition Phase

The enforcement of McKinley Tariff Bill by the Senate of US in 1890 was really a downturn to BNCC and companies operated in the North Borneo. As can be observed in Table 1 the trade deficit of North Borneo worsened in 1890. The management of BNCC and

of those companies in the North Borneo, especially those which relied heavily on tobacco as their main commodity, started to consider a more strategic way of managing their enterprise. Competitive advantage was clearly the influential factor as those companies started to consider market pressure on the price and cost of their products as these suppressed the annual revenue and profit.

In the earlier part of the period the market crisis experienced by tobacco planters was the main issues in the North Borneo. This is due to the over reliance on the commodity during Period I whereby investment mainly focused on tobacco plantation. For example it was reported that towards the end of 1880s many companies in North Borneo restructured their capital and operation to allocate more fund for newly planted area. Some increased their paid-up capital, executing bonus issue of capital, delayed the payment of dividend, and even raised their fund through borrowing or issuing financial instrument such as bond and debenture⁷. To enable those strategies company like The East Borneo Planting Company Limited opted for a more drastic measure by way of winding up the existing company so that the new entity could be formed to enable a new capital structure to be in place⁸. Most of the companies in North Borneo demonstrated opportunistic investment plan and operational strategy as the market prospect of tobacco commodity overwhelmingly highlighted among industry players.

7 *The British North Borneo Herald*, No.VII, Vol.VIII, 1st July 1890; Notes on the recent development, explorations, and commercial geography of British North Borneo, p.208.

8 *The British North Borneo Herald*, No.IV, Vol.VIII, 1st April 1890; The East Borneo Planting Company, Limited, pp. 107-108.

Unfortunately, few years later, such an intense investment on tobacco plantation was severely hampered by the market crisis. Since the supplier in North Borneo was powerless with regards to the external market price the fastest way to mitigate the situation was through internal mechanism; cost control. Some drastic measures were taken for that purpose. Operation was reschedule with a minimum level of plantation maintenance works, postponement of new planting program, abandonment of less economic plot area, contracting out some cultivation processes to labour, and considering the trade-off between quality of tobacco produce and the quality cost involved were among steps taken.

For example in 1890 the companies started to analyze the attributes of fixed and variables components of coffee cultivation costs in order to determine the most economical level of cultivation and production⁹. Labour cost, as the main component in plantation activity, was given special attention. This led to detail analysis on labour costs which included financial advance given by the plantation company to migrate them to North Borneo, the cost incurred consisted of brokerage fee on their migration, welfare and health cost of labourers, productivity in relation to their origin and benefit provided by the employer, up to the educational background and skill of the labourers. This is implied in an article published in *The British North Borneo Herald* in August 1892 "*The recent fall in tobacco prices accentuates the necessity of saving as much as possible in*

9 *The British North Borneo Herald*, No.VII, Vol.XIV, 1st July 1897; Planting prospects in British North Borneo, p.169.

10 *The British North Borneo Herald*, No.9, Vol.XIII, 1st August 1895; *British North Borneo Herald*, p.197.

*the way of labour wages*¹⁰. Examination on a series of archival documents in Malaysian Archive Department (since 1881) shows that prior to that such an analysis has never been done in North Borneo.

In accounting practice a detail analysis was implied in the way transactions were being recorded. In costing process, for example, the determination of cost per unit of product was so stringent so that the comparison between and among alternatives can be done, such as to harvest or to abandon matured area, reducing or rescheduling harvesting process for the sack of utilising the existing labour, or totally abandoning certain cultivated area can be done. Certainly the flexibility of certain costs to certain level of production, their controllability as well as sensitivity to the changes in the level of production was also analyzed¹¹. Meanwhile in recording and reporting practice the management of enterprises exhibited an effort to imply a better company picture to the shareholders so that the confidence of the later can be restored and their anxiety about the risk of their investments in North Borneo can be mitigated. An option to capitalize revenue expenditure was popular among the management to portray a better income statement, as what was done by The British North Borneo itself in 1895 which involved an amount of £71,900 revenue expenditure¹². Interestingly, this resembles what is reported by Bryer (1993b, pp. 649-650) about the absence of a clear conceptual foundation for accounting in the late 19th century:

"It is almost universally accepted that MFR [modern financial reporting] had no clear conceptual foundation and that management was able to manipulate published accounts in its own interest... the management was a powerful agent, able to manipulate published accounts in its own interests because the accounting authorities did not explicitly conceptualize MFR..."

Another strategy adopted during the period, in order to rescue tobacco-dependant companies, was to introduce other potential commodity such as coffee, sago, sugarcane, black pepper and Manila hemp, and a number of cash crops such as vegetable and rice. Of course these was not suggested and implemented without detail cost analysis. Rubber was formally introduced in North Borneo as a plantation crop for Sekong Estate in 1898¹³.

Approaching 20th century tobacco price showed its recovery and better demand and price was recorded. Towards 1910 the growth rate of revenue of companies in North Borneo was considerably satisfactory. This led to a healthy growth rate of BNCC revenue in between 10-15 percent yearly. The shareholders of the companies started to emphasize on a more sustainable source of fund which was retained earnings and reserve instead of a more burdensome and riskier source of financing such as debt and long term loan. Preference share to the

11 *The British North Borneo Herald*, No.15, Vol.XXXII, 4th August 1914; North Borneo Rubber: Future prospects, p.123.

12 *The British North Borneo Herald*, No.5, Vol.XIII, 1st May 1895; *British North Borneo Herald*, p.98.

13 *The British North Borneo Herald*, No.3, Vol.XLIV, 2nd February 1926; *The North Borneo Trading Company Limited*, p.11.

14 *The British North Borneo Herald*, No.18 Vol.XXV, 1st February 1907; Half-yearly meeting of the British North Borneo Company. p.178.

existing shareholders was a popular option specifically to protect the ownership of the company¹⁴. A distinguishable characteristic of accounting practice during the period was the emphasis on liquidity and capability of the companies to sustain vulnerable market condition at that time. In 1907 for example the shareholder of BNCC started to question the real value of land in North Borneo that recorded high in financial report despite low accounting income it generated¹⁵.

More detail costing system was developed, as compared to Period I, with comprehensive analysis and report on labour cost, as the main component of plantation operation in the North Borneo. For example in 1897 plantation managers started to compare the cost and productivity of labourer more objectively, as quoted in an article; *"It must be confessed that the common saying "one Chinaman is worth three Klings" has a very solid substratum of fact behind it..."*¹⁶. In this the cost versus benefit of employing Chinese and Indian labourers was compared. The sensitivity analysis on the immediate effect of labour cost on the overall production cost was also presented in its raw form in 1890¹⁷. In the area of record keeping and reporting the effort to better transpire the financial position of business entity was evident in this period. One of the exemplary transactions was the adjustment made in 1895 amounted to £71,900 which was earlier on (in 1890)

classified under capital expenditure¹⁸. Cost classification and income recognition was more stringent amidst the growing concern of the shareholders about the risk and survival of their investment. This is in tandem with the reported progression of accounting classification in England during the period about detailed heads and sub-heads of account (Higgs, 1914, p. 23-24).

The way accounting being practiced in between 1890-1914 was influenced by the downfall of tobacco price, as the main commodity, in the early 1890s and the outset of WWI in 1914. Subsequent period was denoted by the recovery effort which also stimulated another change in the accounting practice in the North Borneo, as elaborated in the following section.

Period III (1914-1941) – Recovery Phase

The economic recovery process of North Borneo at the earlier part of 1910s was once again impacted by another political turmoil; the WWI (1914-1918). However the impact was not severe and only temporary in nature which can be observed in a temporary fall in the international trade of North Borneo in 1915. The statistics of imports and exports depicted in Table 1 shows the effect of WWI on the trade balance of the North Borneo that can be better observed in Figure 2. The trend of trades in Period III shows that North Borneo was struggling to recover from the effect of the market crisis of tobacco.

Based on Figure 2 the fall in trade performance was so drastic, both in the form of export and import, in 1915 as compared to the preceding year; 86 percent fall in export (from £6,260,281 to £865,561) and 89 percent fall in import (from £4,755,283 to £522,648). The trend afterwards exhibited

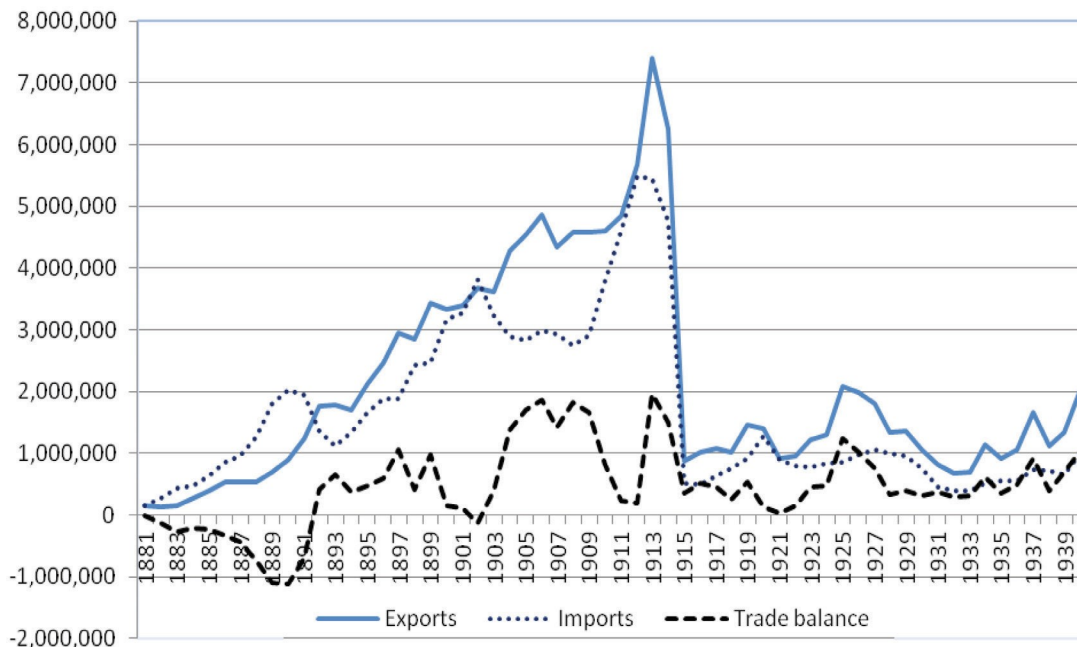
15 *The British North Borneo Herald*, No.3, Vol.XXV, 1st February 1907; *British North Borneo Herald*, p.30.

16 *The British North Borneo Herald*, No.1, Vol.XV, 1st January 1897; A new aspect of the labour problem, p.3.

17 *The British North Borneo Herald*, No.XII, Vol.VIII, 1st December 1890; The coolie question in North Borneo, p.392.

18 *The British North Borneo Herald*, No.16, Vol.XIV, 16th August 1896; *British North Borneo Company*, p. 245.

Figure 2: Trend Of Exports, Imports And Trade Balance Of North Borneo Between 1881-1940 (In £).



discouraging progression despite a steady movement in export and export value and relatively stable trade balance along the way.

Although the demand for export and import was not as encouraging as in the Period II, the yearly growth rate was rather stable in Period III. This was mainly contributed by the rise of rubber price in the early part of 1920s. Thereafter, the role of tobacco as a prime commodity for North Borneo was replaced by rubber. In the early part of 1930s a number of companies that totally depended on tobacco were closed and wounded up¹⁹.

¹⁹ *The British North Borneo Herald*, No.2, Vol.LII, 16th January 1934; The new Darvel Tobacco Plantations, p. 18.

The promising return of investment in rubber plantation was also negatively affected by a number of economic and market crisis. They were economic crisis in 1926 and world rubber price crisis in 1930 that witnessed a drastic fall in rubber export amounted to £231,465 (22 percent) in 1931. As a consequence some companies minimized their production while others suspended the production process²⁰. There was an initiative to recover the world's market price for rubber via a special scheme called The International Scheme of Rubber Regulation in 1937 and 1938. However the recovery was insignificant, temporary and only sustained within those two years. The effect of rubber price crisis on North Borneo

²⁰ *The British North Borneo Herald*, No.1, Vol.LII, 3rd January 1932; Sabalas North Borneo Rubber, Limited, p. 6.

development progression was indeed significant. The fall of export value of North Borneo by 78 percent in 1938, for example, was contributed mainly (24 percent) by the fall in the value of rubber export.

Towards the end of the period, i.e. close to 1940s, the financial crisis faced by BNCC was aggravated by the rumours of another international political conflict; WWII. Unfavourable consequences experienced subsequent to WWI led to a sceptical perception and doubtful view among the managers and shareholders in the North Borneo about the prospect or survival of enterprises. The market and price of commodity was distorted, transportation cost (particularly insurance) increased, supply of material badly affected, and the cost of production was relatively much higher than the yield of the produce. 'Wait and see' approach was employed in decision making process in which dividend payment was accrued, planning and development program was pessimistically executed, and conservative and careful financing activity was demonstrated²¹. Overall, the effort to put in place the recovery of North Borneo in Period III was not successful. Immediately after the WWII North Borneo was taken over by the Central Government of England and converted to become a Royal Colony. Subsequently, the management of BNCC was dissolved.

The accounting practice in Period III was devoted to assist the management of the companies to stay survive in a highly uncertain environment. Uncertain demand and fluctuate price level of major

commodities, such as rubber and tobacco, and political and security distortion caused by WWI and WWII had led to a more structured capital management and more sophisticated recording and reporting approach. Economic crisis during 1920-1924 led to the tendency among the stakeholders to reconsider the value of asset and investment of business entities in North Borneo. This caused conflict between the management of BNCC and the shareholders. Consequently, in 1925 a special independent committee; Howitt Committee, was commissioned to supervise the preparation of BNCC's financial statement in order to protect the interests of stakeholders and ensuring the use of market value in assessing the cost of assets and investment²². This initiative was followed by few other investment companies in North Borneo. For example in 1926 for the first time in North Borneo the amortization of capitalized development expenditure was executed by Sapong Rubber and Tobacco Estates Limited²³. In 1930s the diminution of BNCC's investment value that mainly consisted of physical infrastructure such as road and communication system, shipping and port facilities was argued despite its total ownership and control over North Borneo. The notion that the survival and revenue of BNCC was highly depended on indirect revenue generated from service fee paid by other companies, which were also affected by the crisis of commodity price, was hardly accepted by the shareholders²⁴.

21 *The British North Borneo Herald*, No.16, Vol. LVII, 16th August 1939; Company Meeting: British Borneo Timber Company, Limited, p.169.

22 *The British North Borneo Herald*, No.17, Vol.XLIV, 16th September 1926; British North (Chartered) Co., p.176.

23 *The British North Borneo Herald*, No.16, Vol.XLIV, 16th August 1926; Sapong Rubber and Tobacco Estates Limited: The reserve accounts, p.157.

24 *The British North Borneo Herald*, No.19, Vol.XLVI-II, 1st October 1930; British North Borneo Company, pp. 169-174.

A number of companies were wounded up and for BNBBCC itself financial crisis was burdensome. Most of BNBBCC's revenue was allocated to serve its debt and was not even sufficient to cover operational costs²⁵. Accounting process was mobilized to optimise resources, minimize costs and liability, enhancing liquidity and profitability. The rehabilitation of plantation plots and written off the unproductive one, which value was previously posted to capital account, was then re-charged to profit and loss account to match with future prospects of those items²⁶. Effort to consider matching concept in this context was more evident. However within an uncertain environment predicting future prospect and possible risk was rather difficult. This made accounting treatment complicated and consequently led to conflict between managers and owners of the enterprises.

As such Cost-Volume-Profit (CVP) analysis started to gain attention to determine the net effect of any decision related to rubber plantation, particularly the function of the sensitivity profit and revenue against cost variables. Beaufort Borneo Rubber for example started the initiative to consider likely future cash flow, time value of money (in its simple form), and comparing current market structure and future potential profit²⁷. Such comprehensive and future oriented financial management, analysis, and reporting system was indeed a

distinguishable characteristic of accounting practice in period III as compared to previous periods. The global emerging concern over the cost-volume relationship to that end was reported by many (for example by Antonelli et al., 2009; 2008) and most of them claimed that it was associated to the rise of scientific management attributable to efficiency and mass production (Loft, 1986).

DISCUSSION AND CONCLUSION

The above findings exhibit evidence of accounting changes in the North Borneo during the period 1881-1941. The changes are attributable to three properties of change; form, focus and environmental factors that were influential to those changes.

First, the forms of practice had changed from its simple and straightforward form to a more complicated and sophisticated one. At the beginning, the operation of companies in the North Borneo was straightforward; to explore the area by starting up capital investment in the form of basic facilities, perform site preparation and early stage of crop planting. Apart from recording capital investment and basic transaction of material acquisition and labour employment for operation, simple forms of reporting had also been practiced to inform companies' headquarters about the progress and expansion in the North Borneo. Competition started to influence the way accounting was practiced as North Borneo was exposed to global market trend and price crisis in period II. Competition among local companies, particularly with regards to labour supply, was also influential in a sense that the way labour cost was treated was more comprehensive and carefully

25 *The British North Borneo Herald*, No.16, Vol.LIV, 17th August 1936; *The British North (Chartered) Company*: President's speech, p.209

26 *The British North Borneo Herald*, No.17, Vol. LIV, 1st September 1936; *Laws Sarawak Estates, Limited*, p.236.

27 *The British North Borneo Herald*, No.7, Vol. LVII, 1st April 1939; *Company Meetings: The Beaufort Borneo Rubber Company Limited*, p.88.

scrutinized. In Period III, amidst external and internal pressure to recover, accounting process was scrutinized to consider internal restructuring, improving liquidity, and mitigating the case of capital bleeding. However Great Depression prior to WWII (1930-1940 roughly) had a devastating effect on the recovery effort. Accounting practice was under pressure to assist management to re-organise business in light of a series of stringent courses of action to minimize lost. Certain consideration needed to be taken, for example, to choose between totally abandoning or temporarysuspending operation. Accounting in that context was employed to rationalize meticulous decision.

Second, the focus of the practice had changed from self-contained in the Period I, to the focus on competitive needs in Period II, and finally to recovery and maintenance focus in Period III. At the beginning BNCC and other companies in the North Borneo concentrated their effort to tap the opportunity without much consideration to compete among them. Plenty of land to be developed and BNCC as the government gave its full support for all companies to start their venture. Period II, a more competitive phase, witnessed struggles among those companies to look for sufficient supply of labour, good and strategic location of fertile land area for concession, and input for their economic activities such as material and rice for labour. Competition in the form of market segment and market price for commodity was also apparent in Period II. Period III marked by worst market crash for commodity of North Borneo, and international political turmoil due to WWI and WWII led the management of companies in North Borneo to focus on the recovery of their financial problems, maintenance of

the existing properties and facilities, and to some extent ceased operation and liquidated assets and wound up the companies. These focuses had influenced the way accounting operation being practiced, as elaborated in the previous section.

Third, the environmental factors that influence the changes in accounting practice were different from one stage of change to another. They are observable as the internal and external environment of North Borneo during those periods changed. The change between Period I and Period II was marked by the intensification of competition in the domestic market, i.e. demand for labour and material for production, and in international market, i.e. demand and market price for commodity which was subjected to deterrence and manipulation by the buyer and market players. From Period II to Period III the accounting practice was once again forced to consider the needs to recover the market, ensure the survival, and minimizing the loss. Accounting options were scrutinized by the managers to do their best level to protect the interest of the shareholders and going concern of the companies. They were the agents and medium of accounting technology development in the North Borneo, similar to what happened to other colonies, as claimed by Carnegie and Parker (1996). This implicates the managerial perspective in two ways. First, accounting technology can be mobilized to enhance managerial process as such to consider the ideological interests of an organization. Second, the mobilization of accounting technology by managers should be appropriately executed to avoid misused, particularly in the area of managerial accounting process.

The change process illustrated in this case

provides the evidence conforms to a number of previous claim about accounting practice and its transformative phenomena. First, it demonstrates the dynamic of accounting practice subject to environmental needs and forces. Second, form and focus of accounting practice, as a technology, used to change in line with the complexity faced by the enterprise. Third, the influential factors to the change process of accounting practice could be different from one stage to another due to different context of environmental forces experienced by the accounting practice. This case illustrates comparable findings as compared to the case presented by Maltby and Tsameny (2010) who found evidence on the mobilization of accounting both in booming and recession period via accounting change process.

It is to note that this study was carried out based on the archival documents available at the Archive Department of the State of Sabah, Malaysia. More concrete evidence could be retrieved from other archival centre such as in London, Brunei and Netherland. Archival records for certain periods such as WWII are hardly available as they were destroyed due to war policy. More investigation should be carried out on those evidences so a more complete picture of the accounting change phenomena of the period can be explained. More research should be executed at the neighbouring area, such as Sarawak, Kalimantan and Southern Philippines to produce comparative findings so that the findings of this study could be further validated.

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