Institution building and organizational diversity: the growth of the Australian wool market, 1880s-1939

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Introduction
In the course of a nation’s economic development, institutions come into being that bring order to production and exchange, and it is their effect on the cost of production and exchange that largely explains their influence on economic performance. Australia is of course no exception and several studies have analysed growth-enhancing institutions in the twentieth century. Prior to Federation, the point of sale of Australian wool, the dominant source of global supply by the late nineteenth century, was relocated from London to the capital cities of Australia, bringing with it important stimuli to economic activity. In its wake, a series of industry associations were formed to bring together wool brokers, erstwhile fierce competitors, to organize and operate joint auctions. By, among other activities, sharing overheads costs, developing standardized procedures, agreeing rosters, and resolving disputes, these associations brought down the costs of exchange and assisted the permanent relocation of the wool market.

While formed at about the same time, for the same purpose, and with overlapping membership, the associations behaved and were governed differently from each other. Of the two largest associations, Sydney was rife with inter-firm conflict and required a formal and mediated constitution, while Melbourne was light on governance details and its brokers existed in harmony most of the time. Our interest, therefore, lies in explaining why the various organizations that formed part of a specific institutional development should be so different in several key respects, and whether these differences mattered.

Wool broking associations: an institutional response to local selling
Pastoral output has been a mainstay of Australian economic development since the early years of British colonization. Wool production began by the first decade of the nineteenth century. By the 1830s sheep numbers, wool output and exports were all rising rapidly.

1 No quotation or use of material from this paper without authors’ permission. We gratefully acknowledge the excellent research assistance of Sarah Sergeant. This project is funded by the Australian Research Council Discovery Projects Scheme, DP 1095758.
3 For example: J. Henningham ed. Institutions in Australian Society; G. Brennan and F. G. Castles eds Australia Reshaped. 200 years of Institutional Transformation (CUP 2002); A. G. Kenwood, Australian Economic Institutions since Federation provides some good evidence though focuses rather narrowly on economic policy and formal economic institutions.
motivated by high British wool prices and the opportunity to sell livestock to new settlers. Australia rapidly developed into the leading international wool producer: for example, it supplied a half of British wool imports by 1870 and was the principal Australian export, accounting for between one third and a half of export value between the 1860s and World War Two. Wool, gold, grain and the ancillary services they generated made Australasia one of the wealthiest regions in the world in the second half of the nineteenth century.\(^4\)

Initially, most Australian wool had been sent to the London market on consignment with only a small amount being sold in local auctions by individual firms. As the volume of Australian wool entering world markets rose in the second half of the nineteenth century, the marketing channels connecting antipodean suppliers with northern hemisphere manufacturers altered dramatically. Local auctions quickly replaced consignment from the 1890s. Underlying this relocation was a series of shifts in the conditions of demand and supply that altered the efficiency criteria for the existing institutional arrangements. \(^6\)

Most wool began to be sold in centralized auctions, each jointly operated by several wool broking firms at one of the principal ports around Australia, most notably Sydney (1892), Melbourne (1892), Adelaide and Brisbane (1898), Hobart (c1901), Perth (1919). \(^7\) The opportunity to develop a local market that could compete with the long established London wool auctions coincided with a crisis in the wool industry from the late 1880s stemming from the extension of production into drier inland areas and falling wool prices. Cooperative selling therefore provided the opportunity to cut brokers’ costs through shared infrastructure and marketing and the avoidance of small competing auctions. It also standardized across brokers procedures for viewing the wool, dispute resolution arrangements, and a standard contract of sale. Buyers also favoured a centralized auction in each selling centre with more wool from which to chose, and which thus saved time and made it easier to attend the major sales at each centre.

The market was organised at each centre by an association of wool selling brokers. These firms had competed intensively across geographic and product markets. However, they were now faced with the need to cooperate closely and the associations served as the bridging organisations through which they jointly conducted a central auction. Buyers associations had already formed by the early 1890s and were instrumental in persuading the brokers to associate in order to streamline communications between brokers and buyers. The timing of the formation of the woolbroking associations was similar across centres, with the major ones being formed between the late 1880s and early 1890s with some variation according to the nature of antecedent organizations and the rate of transition to local selling at each centre. The Melbourne Woolbrokers Association (MWA) was formed in 1890, followed by the Sydney Woolbrokers Association (SWA) in 1892, Adelaide Woolbrokers Association in 1894, and Brisbane Woolbrokers Association (BWA) in 1898. In some of these cases an ostensibly similar organization had been formed a few years earlier with a different title, for example the Adelaide Wool, Hide & Skin Salesmen's Association (1886) and Sydney Wool and Produce Salesman’s Association (1889).

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\(^4\) Ville 2005, table 1, 3
\(^5\) I. McLean, ‘Australian economic growth in historical perspective’, *The Economic Record* 80, no. 250, 2004 Table 1b.
\(^7\) Some starting dates are difficult to ascertain especially where they had been preceded by small individual firm sales.
The terms of their constitutions confirmed the common purpose of each of the associations –
to manage and coordinate the sale of wool and other sheep products through the local auction.
The Sydney Wool and Produce Salesman’s Association stated its objects as: to act as a forum
in which to ‘discuss questions affecting the wool trade… arranging as to terms of business
generally. . . adjusting inconsistencies existing and rectifying abuses’ and the catchall ‘for such
other purposes as are hereinafter mentioned’. SWA’s objectives were specific and briefly
stated in 1893, “to maintain uniformity of charges for selling wool, grain, skins, hides, and
other produce, by auction or otherwise, and for the protection of the interests of the members
of the Association”.9

A third element the regional associations shared, besides timing and purpose, was the
common membership of the leading national companies, or ‘majors’. They included firms
from Australia or Britain who had grown up in the expanding wool industry of the mid
nineteenth century notably Dalgety, NZLMA, AMLF, Goldsbrough Mort and Elder Smith.

Structure and conduct of the associations
In spite of similarities in timing, purpose and large firm membership, there were many
differences among the associations. Most obviously, they differed in their ability to generate
harmonious and cooperative relationships among member firms. Disharmony in behaviour,
such as disagreements on operational matters and broader policies and threats to secede from
the association, in turn shaped the structural elements of the associations such as the degree
of formal mediation, the permanency of an association, and the extent of detail and specificity
contained in the constitution.

Behavioural atmosphere
The SWA was an association in name only. The members found it impossible to agree upon
the ‘terms of the business’. They repeatedly failed to agree on a common set of selling
charges. In the original agreement there were three scales of charges. Charging regimes were
frequently amended. It radically changed its pricing model in 1891 and then revised this
twice more by the end of the year.10 The Association disagreed on a wide range of other
issues such as the use of travellers to drum up business and forwarding agents, and the extent
and nature of advertising and auction reports. Quarrels between individual member firms
were also common. At the opening of the 1893 season, Goldsbrough Mort’s Sydney manager
Mr Maiden revealed a series of disagreements - he was involved in a dispute with Dalgety,
argued about the size of lots each broker could offer on sale day, accused Winchcombe
Carson of breaking price agreements, and reported that Dalgety wanted Geddes expelled.11
Disagreements invoked threats of resignation, actual resignations, and periodic dissolution of
the association. Goldsbrough Mort and NZLMA regularly talked of resigning and forcing a
competitive market. Defections began in 1895 with the resignations of Winchcombe Carson

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8 SWPSA agreement dated 6 August 1889 NZL_110_4_313
9 UMA. ‘Rules and regulations of the Melbourne Woolbrokers’ Association (Melbourne: McCarron,
Bird and Co.).
10 NBAC NZLMA 110/4/317 correspondence of Sydney Wool and Produce Salesman’s Association
and John Bridge. The Association was foundering. When its term expired at the end of February 1900, New Zealand Loan amongst others initiated formal dissolution proceedings.\textsuperscript{12}

The Association reformed in 1909 by which time brokers had become conscious of the disadvantages of trading in its absence. The rate war hurt the participants as competition drove fees and charges downwards. The big firms, though less affected, were aware of the benefits of cooperation from their participation in well functioning associations in other centres. Sydney was the largest wool market in the country yet it had no body which could speak with authority to the brokers’ associations forming in other states or with the buyers whose activities transcended state boundaries. Brisbane was emerging as an important wool selling centre for merino wool. Sydney brokers needed to speak with a single voice in negotiating with their northern cousins. Nonetheless, getting firms to commit to the binding rules and regulations of a new Association was not easy and disagreements continued.

The MWA existed in a very different atmosphere. Harmony and cooperation mostly characterised inter-firm relationships in the association. High levels of trust underpinned this atmosphere. It set uniform charges and, tacitly at least, agreed the bounds of acceptable competition for seeking new clients, such as through limiting the number of travellers or placing caps on rebates to wool forwarders. Elsewhere, we have demonstrated the development of rich veins of social capital among these firms, both the result of existing social and business network relationships that connected individuals and as a consequence of interactions in the course of the association’s business.\textsuperscript{13}

While the work of the SWA exacerbated inter-organisational tensions and divisiveness, in Melbourne it brought firms closer together. The 1898 Annual Report noted that the MWA served as a ‘common meeting ground for amicable arrangement of small difficulties which might otherwise grow into grievances…and the resulting increase of uniformity in practice throughout the trade.’ The Melbourne brokers seem to have worked out quite quickly that unison was vital in face of external threats from alternative markets and marketing channels and from supply chain rivals. The almost complete absence of threats of resignation and an unwillingness to push divisive issues and minority views to the limit point to a culture of ‘voice’ and ‘loyalty’ within the organisation, rather than of ‘exit’.

**Structural elements**

The structure and governance of MWA is revealed in its constitution to be a relatively light touch. Overall control and management lay with its management committee, which consisted of one representative of each firm. It had one permanent sub Committee, known as the Trade Committee, of the same composition, ‘to deal with such matters as may be referred to it by the [Management] Committee’. In practice, the Trade Committee handled most of the day to day business, including the management of the auctions and interacting with other industry groups. It referred major issues to the Management Committee for a decision.\textsuperscript{14} Since member firms were of relatively similar size and market share, representation, voting rights, and subscription fees could be equalised. The constitution did not provide for scheduled meetings besides an AGM each April. Instead, they should be called from ‘time to time’ as

\textsuperscript{12} NBAC GM Alan Barnard collection, box 2, item 13, GM London board minutes, f.146. 16/3/1900, f374 24/9/1900 & f424, 5/1/1900.

\textsuperscript{13} Ville and Merrett, ‘Investing in Interorganisational Communication: The Melbourne Wool Brokers Association’; Merrett, Morgan, Ville 2008

\textsuperscript{14} UMA 79/178, Rules and regulations 1901.
needed. The absence of detailed rules on the conduct of meetings also intimates a reasonably relaxed and informal approach. Similarly, meetings might take place at the Association’s offices, ‘or at such other places it shall from time to time determine’ and matters not included in the agenda could be discussed if all members were present and agreed. AMLF expressed concern that the MWA’s constitution was ‘less effective and precise’ than that of the Sydney Association. However, the MWA’s light set of rules and regulations was a source of strength, negating the cost of establishing and maintaining detailed structures and policies. It derived most of its strength not from the formal contract among members but rather their informal linkages based upon heritage, social networks, and geographic propinquity.

The lack of trust among firms in the SWA necessitated more formalised and mediated governance and more detailed rules and regulations. The key difference was that of external mediation. Sydney brokers feared a rival being elected to the chair or a coalition forming to ‘capture’ the position. Further, that ‘friends’ might not pursue complaints about breaches of rules with sufficient vigour. The solution was to reach outside the organization for a de facto chair, the Arbitrator, and for trustees who were responsible for the management of the Association’s bank accounts and, later, real estate. The Arbitrator was to chair all committee meetings and the annual general meeting. The Arbitrator was given extraordinary powers to investigate claims of breaches of the rules brought by one member against another. Those charged were required to make available ‘all books deeds papers accounts vouchers writings and other documents within his possession or control…’ No form of appeal was possible either within the Association or through the courts. The men chosen for the tasks were of high standing in the community and with links to the pastoral industry. The partner in the law practice Macnamara and Nathan, Melbourne, John Macnamara, was the first Arbitrator and an authority on the Land Acts. When the Association re-formed in 1909 a new Arbitrator was appointed, Edward Percy Simpson, who remained in the position until his death in 1931. He was a senior partner in one of the city’s leading law firms, Minter, Simpson & Co, a well placed businessman and a commanding figure on the conservative side of politics.

Another distinctive feature of the SWA’s constitution was the temporary nature of the association. Taking a cue from game theory, an association whose members believed that it would last for a very long time would generate higher levels of co-operation through an iterative process on tit-for-tat retaliation than one whose life span was fixed. Paradoxically, the SWA’s constitution limited its life to only four to five years. While the August 1889 agreement has no mention of a fixed time frame for the Association, the behaviour of members suggests that one was agreed upon soon after its establishment. A number of brokers were discussing the dissolution of the Association in early 1895. The collapse of the Association in 1900 coincided with the expiry of its term. When the Association was re-formed in 1909, clause 10 stated that the ‘Association shall last for four years from the date of formation’. The 1921 and 1929 Rules and Regulations limited terms to four and

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15 Australian National University, Noel Butlin Archives Centre, Australian Mercantile Loan & Finance Company 162/687, correspondence June 1934.
16 NBAC NZLMA 110/4/313 Copy of agreement Sydney Wool and Produce Salesman’s Association, 6 August 1889, clauses 5 & 6.
19 NBAC, Goldsbrough Mort, 2/174/Box 3/letter 296, 3 January 1895
20 NBAC, NZLMA 110/4/319, 21 March 1900.
21 NBAC, NZLMA, Rules and Regulations of the Sydney Wool-Selling Broker’s Association, May 1909, clause 10.
five years, respectively. Procedures were in place to enable the assets of the Association to be liquidated and distributed to the members in the event of dissolution.\textsuperscript{22}

This arrangement weakened the commitment of the participants to abide by the rules of the association and to invest in the social capital necessary for its maintenance. The limitation of the term of the agreement undermined the credible threats of expulsion. Any member found guilty of breaches of the rules could be fined up to £500 and a vote by two-thirds of members from 1889 until 1900 and three-quarters of the members after 1909 could mean expulsion for flagrant breach.\textsuperscript{23} The penalty for breaking ranks was severe. The 1909 Rules and Regulations stated: ‘No member being expelled, or ceasing to be a member, shall be entitled to enjoy any privileges of the Sydney Wool Selling Brokers or to participate in any of the funds or assets thereof, or to use the sale room of the associated brokers.’\textsuperscript{24} The clause was later amended so that only expelled members were denied access to the Wool Sales Room since each of the companies ‘are virtually the lessees’.\textsuperscript{25} The nature of the expulsion created a dilemma for a firm - would the potential gain in attracting a greater volume of wool to sell associated with ‘cheating’ be greater than the additional co-ordination costs of negotiating with buyers in operating separate sales? If there were net gains, they could continue only until the association terminated leading to competitive pricing, wiping out the benefits enjoyed by the expelled firm. Firms often stepped back from the breach of resignation or at least sought to maintain joint selling arrangements by resigning en masse. Not surprisingly, the Association kept extending its term upon expiry.

**Accounting for organisational diversity**

The relocation of the wool market required the stock and station agent industry to rethink its mode of operation in several fundamental ways. Agents provided multiple services to farmers – finance, raw materials, sale of livestock, and consignment of wool to London. Some firms shifted from being consignors to the London wool market to organising their own auctions in Australia and took on the term broker for this role. This required learning new skills and investing in new fixed capital. Only a limited number of agent firms had the depth of entrepreneurial talent, the vision, and the resources to lead the transition to a new business model. Such firms opted for a public float and, in many cases, reduced their commitment to long term property loans, the illiquidity of which had created financial problems. Therefore, the industry, from being one of relatively similar firms in size and orientation, bifurcated into larger firms, leading the move into local selling, taking on new skills and making new investments, and smaller ones that were either absorbed, hung on to the coattails of the larger firms, or focussed on forwarding wool from the pastoral districts for the larger broking firms to sell. The dominance of the leading firms can be seen by the fact that nationally the top five brokers accounted for about half of wool sold at auction, and these firms similarly dominated measures of big business in Australia after 1900.\textsuperscript{26}

\textsuperscript{22} 1921, clause 10, 1929, clause 10.
\textsuperscript{23} NBAC NZLMA 110/4/313 Sydney Wool and Produce Salesman’s Association, 6 August 1889, third schedule, clause 9; NZLMA 110/4/340, Rules and regulations of the Sydney Wool-Selling Brokers’ Association, May 1909, clause 17.
\textsuperscript{24} NBAC NZLMA 110/4/340. Clause 18.
\textsuperscript{25} SLQ Brisbane Wool Selling brokers, Box 83, packet OMA/27/1, Rules and Regulations of the Sydney Wool Brokers, 1921, clause 18; 1929, clause 18]
\textsuperscript{26} Ville, *Rural Entrepreneurs*, p. 27; S. Ville and D. Merrett, The Development of Large Scale Enterprise in Australia, 1910-64’ *Business History* 42, 3 (2000), pp. 13-46
A third shift, beside local selling and industry bifurcation, was the realisation that the previous model of intense inter-firm competition had to be moderated by a large dose of cooperation. Sharing infrastructure costs, rationalising sales dates and order, resolving disputes, communicating with buyers and growers representatives, and developing sound and standard procedures and charges were all best achieved through cooperation. Learning to hold ‘collaborative values’ was vital to the success of Australia’s first local commodity market and would be played out in the new organisational form of the woolbroking associations. Writers on inter-organisational cooperation provide important insights into how firms cooperate. Snow has recently noted that ‘actors’, firms and their representatives in this case, need to hold ‘collaborative values,’ that include a concern for the welfare of collaborating partners and the equitable distribution of rewards’. These observations are relevant to our study where previously intensely competitive firms needed to moderate their perspective on, and behaviour towards, rivals. In this context, questions of power and personality interactions and their legacies may also have played a role. In addition, while cooperation may bring benefits in the form discussed above, agreement on the distribution of those rewards is the critical incentive to the success of collaboration.

Our historical study brings several additional complications that are rarely addressed in the conceptual literature. The new business model was pluralistic in requiring firms to deploy newly learned cooperative strategies while maintaining strong competitive instincts. These two distinct strategies, competition and collaboration, could not be easily separated and compartmentalised within the firm’s operations. The key challenge for the firms in their associational context was to develop a mutual understanding as to where the boundaries of competition and cooperation lay and how this might change within a dynamic environment of the growth of the market tempered by war and cyclical economic fluctuations. Secondly, our firms were not always equal actors and therefore the vital question of the distribution of the rewards of cooperation is a complex one. Indeed, the heterogeneity of firm type, spurred by the market’s relocation to Australia, appears to be one of the underlying explanations for organisational diversity across the associations.

Firm concentration and heterogeneity

Sydney had a larger and more diverse group of selling brokers than the other centres. Comparing Sydney and Melbourne in 1906, the dominant auction centres at the time, there were twice as many brokers in Sydney and the market was much less concentrated. The four largest sellers were responsible for 49 per cent of the market in Sydney but 78 per cent in Melbourne. Calculation of Herfindahl concentration indices confirms that Melbourne was 50-100 per cent more concentrated than Sydney. The Melbourne figure periodically rose above 0.18, which is sometimes regarded in anti-trust circles as a tipping point for concentration that is likely to lead to muted competition and enhanced cooperation or collusion.28

Cohesive behaviour is more likely where there are fewer and more dominant actors in association. Cooperation is made easier for example where there are fewer participants among which to build consensus. Monitoring of opportunistic behaviour is less costly and this realisation will serve as a deterrent. Significantly, there were more frequent complaints of opportunistic behaviour in Sydney. Goldsborough Mort’s Sydney manager told his London

27 C. Snow, ‘The architecture of collaboration: organizing resources among large sets of co-equal actors’ (draft paper from author), p. 28.
board that the rules of the Association were ‘broken in the most barefaced manner’ and ‘as this Company strictly adhered to such rules it was to our detriment to remain bound by them…’. Significantly, the board recommended caution to their Sydney manager. The major firms with Boards remote from the centre of disputes in Sydney may have been better placed to take a more dispassionate and conciliatory approach to conflict.

Table 1: Number of brokers and concentration ratios in wool selling centres, percentage of sales by top four firms, 1906-39

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<thead>
<tr>
<th></th>
<th>1906</th>
<th>1918-19</th>
<th>1928-29</th>
<th>1938-9</th>
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Notes: The number of selling brokers operating in each centre is shown in parenthesis. The three firms which sold exclusively in Geelong are not included in Melbourne data. A number of fringe firms generally selling less than 5,000 bales and not surviving much beyond the immediate postwar period have been excluded from the data.

Source: Dalgety Annual Wool Review

Chart 1. Herfindahl indices of market concentration for wool brokers in Sydney and Melbourne

There was a greater degree of churning among Sydney brokers with a total of 17 firms selling wool here at some point between 1902 and 1940, compared with only eight in Melbourne. Greater continuity among brokers in Melbourne added to the sense of cohesion by helping firms to build up trusting relationships over time with one another.

An association’s encompassment, that is the extent to which membership covers the whole industry, affects cohesion. If all brokers were members this would increase the extent of inter-firm communication and reduce the uncertainty regarding the strategies of those operating outside the association such as free riding or the formation of competing groups of firms. In Melbourne, all selling brokers were normally members. In Sydney, some firms remained outside the SWA or periodically joined and left as described in the previous section. In 1894 four Sydney brokers were not members of SWA.

NBAC Goldsbrough Mort correspondence, 1896, 2/174/587a check; NBAC Alan Barnard Collection Box 2, item 13, f41. 21/11/1893.
Heterogeneity also mattered. The four largest Melbourne brokers were all national organisations that sold in multiple markets in Australia and New Zealand. Dalgety sold in Melbourne, Sydney, Geelong and Brisbane. NZLMA also sold in Melbourne, Sydney and Brisbane, while Goldsbrough Mort and AMLF sold in Sydney as well as Melbourne. As a result, these firms had similar business models and were accustomed to working with each other in various locations and contexts. In Sydney, however, the largest broker, Winchcombe Carson, sold only in Sydney although later entered the Brisbane market [c1911-13]. Next in market share came four firms closely clustered together - Goldsbrough Mort; Dalgety; Harrison, Jones and Devlin; and John Bridge and Co., the latter two also being Sydney only firms. Additionally, there were a number of smaller Sydney based houses such as Hill Clark and Pitt Son and Badgery.

These three types of firms each had distinct business models. The national firms had access to long term loan facilities with which to buy farmer loyalty, the ability to shift resources between centres as required, and London offices to advise them on international market conditions. These were all valuable resources, for example, a presence in different markets enabled firms to shift resources to Brisbane and Adelaide as their share of national sales increased at the expense of Sydney and Melbourne. The larger Sydney-based houses had reasonable financial backing but lacked the geographic flexibility and information flows of the former group. The smaller Sydney houses lacked all of these levers of competitive advantage and instead relied heavily upon social networks and business connections as their main sources of strength but competed with farmer cooperatives on this basis.

Charts 2 and 3 show changes in market shares for each broker in Melbourne and the principal ones in Sydney from the beginning of the twentieth century to the eve of World War Two. What is striking in the case of Melbourne is the relative stability in market shares across time. There is some general loss of share with the entry of the cooperatives and some confirmation of the shifting of leadership nationally across the century among the majors. The fluctuations in market share are far more significant in Sydney, where the Sydney-based firms were vulnerable to the greater resources of the national corporations. In the interwar period, many smaller firms were acquired by the larger ones such as Hill Clark by AMLF in 1922. Even the larger Sydney firms were vulnerable; Harrison, Jones, & Devlin and John Bridge gradually lost share before being acquired, respectively, by Goldsbrough Mort in 1922 and by Farmer & Graziers in 1919. However, the die was cast before World War One where the conflict in the SWA reflected the fight for survival by many local firms. The observations in these charts are confirmed by calculations of coefficients of variation, which show greater fluctuations for many firms in the Sydney market compared with Melbourne.\footnote{Coefficient of variation is the standard deviation divided by the mean, by normalising it permits comparisons of fluctuation across different groups of data.}

Significantly, the large firms were themselves vulnerable - to the interwar depression and the incursion of the cooperatives; AMLF and Goldsbrough Mort were being buffeted around considerably more in Sydney than Melbourne, and their acquisitions in the former market were intended to shore up a declining market share. Winchcombe Carson, which maintained
market share in Sydney with remarkably low fluctuations in its share (CV=0.07) and expanded into Brisbane at a time when that centre’s share of Australian sales was rapidly rising, remained an independent company until its acquisition by the combined group of Dalgety-NZLMA in 1979.

The inability to agree on policies such as a common set of charges was thus indicative of the failure of the members of the SWA to agree on the boundaries between competition and cooperation. The majors felt that the SWA muted their superior competitiveness. This lay at the heart of questions such as whether to limit the extent of firm-level advertising, how much information to provide to newspaper reports of sales, and whether there should be a limit on the number of company travellers. Goldsbrough Mort captured the mood of the majors in October 1893 when they noted ‘all we require is an agreement on the 1/8th [handling charge] and … to present a solid front to buyers in cases of dispute’. A couple of years later their Sydney manager, Maiden, made it plain that his firm would follow its own path on charges as ‘we must be allowed to conduct our internal business as suited our conditions’, actions which were in clear breach of the agreement. ³¹ Often, Winchcombe Carson were caught between the majors and the Sydney firms – they were disappointed in 1913 when SWA decided to stop combined advertisements since they felt it offered a them ‘considerable saving’ although acknowledging that it was not a very effective instrument. ³²

The entry of the coops confirmed the complex fault lines of the SWA. Following the entry into the Sydney market of the Co-operative Wool & Produce Co. Ltd in 1897, a conference between the buyers and the co-operatives in the following year ‘recommended a large reduction in charges for adoption by the Association.’ Goldsbrough Mort estimated that the cost of the proposed new rates would be £6000 in lost revenues. Writing to London, the general manager reflected that ‘we can see very well that many Sydney houses are in such a weak condition they are terrified with the prospect that the Co-op doing business at rates lower than those of the Association and are thereafter ready to blindly accept any modification which falls short of actually adopting the Co-op tariff’. Meeting with Goldsbrough Mort and Dalgety, New Zealand Loan announced that they ‘would leave the Association and introduce a war on rates.’ ³³ Their thinking was that they realized that while they would lose revenue through increased competition, the ‘Sydney houses’ would be hurt more providing an opportunity for the larger firms to grab market share or launch takeovers. On this occasion, the three firms failed to act in unison - Dalgety declined so New Zealand Loan started offering rebates almost immediately. ³⁴ However, it is clear that the larger firms were communicating with each other and in some cases entered into contractual agreements. ³⁵ Similarly, in 1901 the board of Goldsbrough Mort indicated that it wished to avoid a rates war but were ‘not apprehensive of the consequences’ should one occur. ³⁶ The cooperatives were almost certainly more of a threat to the smaller and local houses with higher costs than the majors.

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³¹ NBAC GM 2/174/296 – 3/1/1895, correspondence  
³² ML, K8235, Board minutes  
³³ NBAC GM 2/28A (3) – London letter 14/9/1898  
³⁴ NBAC GM 2/28A (3), London letter - 26/9/1898 & 29/9/1898  
³⁵ For example in 1930 between Goldsbrough Mort, AMLF and Australian Estates regarding handling each other’s produce business. 133/5/2. Also AMLF noted in 1934 that the leading firms, ‘do from time to time collaborate and agree on uniform action’. Letter dated 14.6.1934.  
³⁶ NBAC Alan Barnard collection, box 2, item 13, GM London board minutes f156, 24/6/1901.
Product and supplier differences

While firm heterogeneity reveals much about the different atmosphere between associations, an underlying question is why Melbourne selling was controlled by a few dominant brokers while Sydney had a large and diverse group. The transition to local sales was similar between Melbourne and Sydney – by the 1910-11 season 89 per cent of NSW wool was sold locally and 93 per cent in the case of Victoria. The scale of the sales differed – around twice as much wool was sold in Sydney as Melbourne. However, one might expect this to lead to economies of scale and larger more dominant firms in the former rather than the latter.

Chart 4. Share of Merino and Crossbred in wool sales by State, 1899-1940 (5-year averages)

A notable difference between wool production in Victoria and New South Wales was the different product mix between merino and crossbred with a much stronger attachment to merino wool in New South Wales. This is reflected in the different shares of the two wool types sold by State in Chart 4 and is similarly reflected in the sheep populations. Among the other States only Tasmania had a significant commitment to crossbreds. The cooler winter climates in the southern states and heavier soils were better suited to production of crossbred sheep farmed for their meat as well as their wool. Crossbreds were more resistant to foot-rot and other diseases associated with wetter areas.

Table 2: Proportion of flocks of under 500 and over 2,000 sheep by State, 1919/20-1939/45

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<thead>
<tr>
<th></th>
<th>NSW</th>
<th>Victoria</th>
<th>Qld</th>
<th>SA</th>
<th>WA</th>
<th>Tas</th>
<th>Aust.</th>
<th>% Aust. sheep</th>
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<tr>
<td>1919/20</td>
<td>&lt;500</td>
<td>60</td>
<td>72</td>
<td>50</td>
<td>78</td>
<td>62</td>
<td>87</td>
<td>68</td>
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<tr>
<td>1939/45</td>
<td>&lt;500</td>
<td>37</td>
<td>64</td>
<td>24</td>
<td>63</td>
<td>49</td>
<td>82</td>
<td>51</td>
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<tr>
<td>1919/20</td>
<td>&gt;2000</td>
<td>12</td>
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<tr>
<td>1939/45</td>
<td>&gt;2000</td>
<td>22</td>
<td>5</td>
<td>54</td>
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</table>


A second important feature of sheep farming in the southern states was the greater proliferation of small flocks, particularly on mixed farming properties. This was the consequence of a mix of soil, pasture and climate conditions that involved sufficiently regular rainfall for good quality pasture to produce fat stock combined with small herds for wool and often suited some wheat cultivation or cattle on the property.

The combination of more small producers and a greater focus on crossbred wool had significant implications for wool brokers’ handling costs in Melbourne. Dealing with a large number of small producers rather than a small number of large producers had implications in terms of brokers’ transaction costs. Moreover, the substantial costs associated with the physical handling of wool and the administrative system keeping track of the movement of tens of thousands of bales through the warehouses were increased by the fragmentation of owner lots. The costs of preparing wool prior to auction were highest in those centres which had a predominance of small lots of cross bred wool. Wool delivered to store by smaller

37 Dalgety Annual Wool Review. In Victoria about a quarter of wool sales were at Geelong.
38 Statistical Handbook of the Sheep and Wool Industry, tables 4-9, 7-8.
39 Wadham and Wood, Land Utilization in Australia, p. 90.
40 Wadham and Wood, Land Utilization in Australia, pp. 92-3, 108-12
41 A broker in Western Australia used 19 separate documents to track the tasks involved from the receipt of wool to its sale. Fyfe Commission, Appendix 2, 182-3.
growers was more likely to have been poorly classed, poorly pressed and inaccurately weighed. Buyers were more demanding in their pre-auction inspection of small lots and crossbreed wools, both of which they regarded as of less uniform quality than merino wool from large scale pastoralists. AMLF’s Melbourne broking business had a different cost structure to that in Sydney. It sold the same amount of wool in both centres in 1910, but had 1,768 clients in Melbourne compared to only 675 in Sydney. More than half of the Melbourne clips were less than 10 bales which had to be displayed in full. This “forced the Company to own a much larger floor space in Melbourne than in Sydney so as to show buyers a greater proportion of the wool offered for sale.” In 1932 45 to 50 per cent of wool sold in Sydney was “shown on the floor” compared to 65 to 70 per cent in Melbourne.

The implications of the more costly and complex operation handling the output of many small crossbred wool producers in Melbourne suggested the need for large well-resourced broking firms with sufficient woolclassing expertise, large well-equipped warehouses, and cost-reducing economies of scale. This is consistent, therefore, with the domination of wool selling in Melbourne by the major brokers possessed of such competencies.

Local environmental factors – business cultures and legacy relationships

While much of the explanation for organisational diversity lies with firm heterogeneity and product and supplier differences, as analysed in the previous sections, there may be differences in the broader business environment that influence the ways firms have conducted their operations in the different Australian cities. In other words, were Melbourne firms more likely to follow a model of inter-firm cooperation, or at least a combination of cooperation and competition than say Sydney firms? This is a broader question that is both difficult to measure and goes beyond the parameters of the current paper. A number of celebrated inter-firm organisations were located in Melbourne particularly the Collins House Group, a cooperative initiative of several major mining companies. Our research on the early history of the MWA drew attention to the role of social clubs propinquity in lubricating inter-organisational cooperation among the Melbourne business community. On the other hand, the collapse of the Marvellous Melbourne property boom at the end of the 1880s, revealing evidence of corrupt and opportunistic behaviour did much to break down levels of trust.

Related to this is the question of, whether there had been a tradition of cooperation specifically in the wool industry at the particular centres prior to the establishment of associations at the end of the nineteenth century and the shift by necessity to a pluralist model of cooperation and competition. The Sydney legacy was of experimentation with joint selling in 1863 organised by a special committee appointed by the brokers. This arrangement, a response to pressure from the buyers, and lacking the independence of a separate bridging organisation, failed to endure beyond the early 1880s. By the time of the formation of the Sydney Wool and Produce Salesman’s Association in 1889 it was clear that a separate organization with detailed rules and mediation was necessary for joint sales to work.

42 Inspected bales had to be shown with the top flap of the bale cut open or ‘capped’. The increased inspection requirements imposed costs to the brokers in that more bales had to be moved within the store, bales had to be re-sewn and, in the case of capped bales, repressed and re-sewn.
43 Bailey, A Hundred Years of Pastoral Banking, 183.
44 MWA, Minutes Trade Committee, 18 may 1932.
46 Barnard, Wool Market, pp. 110, 154-5.
Power and personalities

Our analysis of firm heterogeneity in Sydney raises an issue of whether such structural differences in the SWA fostered divisiveness on the basis of power or personality. While there appears to have existed a healthy mutual respect among the major firms in Melbourne, the heterogeneity by size and business plan in Sydney may have brought to the fore personality differences or the opportunity to pursue power-seeking desires. Certainly some of the majors believed there were too many brokers operating in Sydney and that the auctions would have been easier and more efficient to operate if there were fewer firms. As discussed earlier, some of the majors pursued active acquisitions policies. The knowledge of such power plays may also have fed into potential or underlying conflicts. The report of a 1910 meeting of SWA by a New Zealand Loan reflected these tensions, ‘the meeting was a discursive one, unduly prolonged by the mock heroics of Mr. Lionel Bridge and the spontaneous enthusiasm of Mr. Robert Pitt’. The draft allowance was discussed at length without any resolution. He reported it thus: ‘the discussion, or rather altercation, on this subject would have been prolonged indefinitely had time allowed’. However, given the large volume of extant minutes and correspondence, this appears to be relatively isolated incident.

Organisational diversity and performance

Did organisational differences matter for the performance of the associations and their constituent firms? The wool broking firms were multiproduct, combining wool sales with livestock and property sales, and the provision of finance and farming inputs. The firms did not delineate these activities as profit centres and some degree of cross-subsidy was purposely employed. Measuring performance is complicated further in the case of firms that operated in multiple wool selling centres. The associations themselves did not seek to generate profits. Instead, we must look to alternative measures of the relative degree of effectiveness of the associations.

Changing shares of the national wool market may tell us something about the performance of associations. During the first four decades of the twentieth century the shares of both Melbourne and Sydney were contracting at similar rates due to the opening of new selling centres; Sydney lost some of its merino-producing customers in northern NSW and Queensland to the Brisbane sales. Within centres, we have seen that market shares fluctuated more in Sydney than Melbourne, which would have increased investment uncertainty for firms operating in Sydney. Some of the majors performed more poorly in Sydney, including Goldsborough Mort which was particularly critical of the effect of the association on nullifying competition and failing to address opportunistic behaviour. Sydney businesses also appear to have been particularly vulnerable to the intrusions of emergent cooperatives; Farmers & Graziers entered the Sydney market in 1919 immediately claiming a seven per cent market share; within two decades it had doubled its share and had become the market leader alongside Winchcombe Carson. In Melbourne the VPC entered in 1917 with a two per cent share which it soon expanded to 8-9 per cent, a figure it maintained through the rest of the interwar period but that remained below that of the majors.

An alternative measure of market effectiveness is the extent of cross-border sales, that is to what degree were producers in one State persuaded to sell at the neighbouring State’s auction. All States faced boundary battles with their neighbours to secure forwarded wool. In addition, all State governments ‘manipulated’ rail freight rates to encourage wool to be directed their way. Finally, brokers periodically offered to subsidise coastal freight rates to attract wool clips, something which the associations discussed in conference and sought to abate. These provisos noted, there still appear to be substantial net ‘imports/exports’ between States as indicated in Table 3, with Melbourne the largest beneficiary and Sydney one of the biggest losers. If they held a larger market share in Melbourne and the market there was less susceptible to disagreement and lack of uniformity, the major companies may have sought to divert wool clips in the border areas such as the Riverina from Sydney to Melbourne.

<table>
<thead>
<tr>
<th></th>
<th>Production</th>
<th>Sales</th>
<th>Skins</th>
<th>‘Residual’</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>606</td>
<td>432</td>
<td>63</td>
<td>111</td>
<td>-18.3</td>
</tr>
<tr>
<td>Victoria</td>
<td>227</td>
<td>262</td>
<td>42</td>
<td>76</td>
<td>+33.6</td>
</tr>
<tr>
<td>Queensland</td>
<td>223</td>
<td>181</td>
<td>9</td>
<td>33</td>
<td>-15.0</td>
</tr>
<tr>
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<td>87</td>
<td>85</td>
<td>12</td>
<td>10</td>
<td>+9.9</td>
</tr>
<tr>
<td>WA</td>
<td>83</td>
<td>56</td>
<td>7</td>
<td>20</td>
<td>-24.6</td>
</tr>
<tr>
<td>Tasmania</td>
<td>24</td>
<td>18</td>
<td>2</td>
<td>4</td>
<td>-16.8</td>
</tr>
<tr>
<td>Australia</td>
<td>1252</td>
<td>1033</td>
<td>134</td>
<td>85</td>
<td>-6.8</td>
</tr>
</tbody>
</table>

Notes: Production, ‘Production of greasy wool’, table 27, 23-6; Sales, ‘Amount realized: greasy and scoured’, table 45, 45; Skins, ‘Exports of wool’, table 53, 55. The Residual is estimated by subtracting columns 2 and 3 from 1. The percentage is the Residual divided by Production.

Source: Statistical Handbook of the Sheep and Wool Industry.

On many key issues the Melbourne brokers appear to have more easily and quickly reached agreement and consensus. We noted the heated and extended discussion of the prompt above. In 1890 the MWA successfully resisted buyers association pressure to extend the prompt from its current six days, while the SWA were obliged to extend it to 10 days. Winchome Carson often noted that a topic has been agreed by the MWA but that SWA require a further meeting to come to a decision, all adding to the uncertainty and time cost for Sydney companies. There is some evidence that Melbourne charges may have been higher. Elsewhere, we have argued that increases in broker charges at this time can largely be attributed to higher operational costs. The MWA’s members quickly took consensual decisions on how to respond to these additional costs while the SWA discussed the question for much longer and struggled to come to an agreement. In July 1912 when the Melbourne

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48 For example, the Riverina between Victoria and New South Wales and New England for New South Wales and Queensland.
49 UMA 106/121 MWA minute book 1, meeting of 13.10.1890
50 For example, in the early months of 1912 the SWA held a series of meetings to discuss the issue of who were legitimate wool forwarding agents. After ‘long negotiations’ the SWA agreed rates for leather commission but this was merely a narrowing of previous positions not a single price. Finally, Melbourne had taken a decision to charge for fire insurance but Sydney had yet to discuss the idea. Winchombe Carson rough minutes 30.1.1912, 3.2.1912, 5.3.1912, Managing Directors Minutes 28.5.1912.
51 Ville and Merrett, ‘Cartels’
brokers were close to agreeing to raise charges, Winchcombe Carson noted, “Sydney assocn has not yet officially discussed the matter”. 52

We might further judge the performance of the associations by their ability to develop a mature market structure with established routines and infrastructure. One significant difference between Sydney and Melbourne was the establishment in 1914 of the Melbourne Wool Exchange, a company owned by the brokers in association, and consisting of a purpose built building for the conduct of auctions and related business. A contemporary book written at the time of its opening, accurately predicted that, “it will become the pastoral centre of Melbourne”. Besides hosting the auctions, the MWE provided offices for many interests in the wool trade, and a meeting point through which disagreements could be addressed and ideas for development of the wool market discussed. 53 The good working relations developed before 1913 could now be enhanced through this central institution. Moreover, it provided a permanency and element of sunk costs which contrasted with the temporary and intermittent association in Sydney. In the late 1920s, the SWA continued to lease salerooms. 54

Conclusion
The wool broking associations were an institutional response to the opportunity to relocate the principal international wool auction market from the United Kingdom to the Australasian colonies from about the 1890s. Many of the key foundations for the relocation of the market — sharing infrastructure costs, rationalising sales dates and order, resolving disputes, communicating with buyers and growers representatives, and developing sound and standard procedures and charges — were all best achieved through the new cooperative institution of the wool broking association. The associations were formed at each of the main selling centres around Australia at about the same time with similar sets of objectives and with some overlap in membership by the major national firms. However, their atmosphere, or tone of inter-firm relations, and governance structure varied between centres. The differences are particularly noticeable between the two largest selling centres, Sydney and Melbourne. Our interest is to explain these differences in light of the commonalities identified.

The richness of the extant historical evidence has allowed us to delve closely inside the associations — particularly to look at the nature of the firms, the produce they handled, and the type of farmers with which they dealt. The industry from which the brokers emerged, stock and station agency, was experiencing a major reorientation — the development of the new selling function and the polarisation into different firm types and sizes that this brought in its wake. However, the key change to the business model of firms was the need to cooperate with rival firms on an ongoing and detailed basis in the auctioning of wool. Firms needed to learn to hold collaborative values. Were some firms more adept at this than others? Did the local business environment, legacy relationships, or personality affect their ability and willingness to cooperate?

At the same time, they continued to compete for customers and therefore a pluralistic model of competition and collusion was needed. Where did the boundaries lie? Stock and station agents provided a range of services to farmers — financial support, wool, land and livestock selling, raw material inputs, market information, and business advice. These activities

52 WC Managing Directors Minutes 30.7.1912
53 How organisations connect, p. 190.
54 WC rough minutes 1.12.26 report that SWA looking for an extension of the lease for 1927-9.
coalesced into a single aim to gain and retain farmers and thus market share. Therefore, delineating spheres of competition and cooperation was far from easy. All of the brokers acknowledged that some degree of cooperation, normally through the Association, was desirable but views differed on where to draw the line. In essence, the larger national firms favoured more limited cooperation based on the mechanics of operating the auction, agreeing standard charges (sometimes), and using the associations as a vehicle for negotiations with the powerful buyers’ organisations. The smaller firms sought to reduce their costs through additional shared or constrained competitive activities and services such as joint advertising or limiting the number of travellers, instead relying on their personal connections to maintain market share. For the larger firms with less reliance on personal connections, these services were spheres where they wished to exert their superior financial power through competitive behaviour.

We have largely focussed on comparing Sydney and Melbourne, the former racked by disagreement and constrained by a formal and mediated governance structure, the latter existing in relative harmony and supported by an informal and ‘light’ constitution. The key differences appear to be that Sydney had a less concentrated market with more brokers, and there was a greater heterogeneity of firm types among them. Market shares fluctuated more than in Melbourne as large firms tried to drive out the smaller ones to shore up their turnover and force down costs through economies of scale. This led to greater churning in membership and thus weakening the ability to develop multilateral cooperation over time. The lack of a single voice also made the brokers vulnerable to market penetration of the producer cooperatives, particularly Farmers & Graziers.

By contrast, Melbourne had fewer and more homogenous members – their business models were similar and trust-based relationships could be built up over longish periods of time. When the threat of producer cooperative penetration of the market emerged, the benefits of cooperation and stability paid off – the MWA found ways of embracing the new entrants in an agreed constructive manner and without ceding as much market share as the Sydney branches of the same firms.

The type of produce and farmer customers may have played a role in shaping this pattern of firm participation. Melbourne brokers faced higher costs – a greater proportion of small producers increased transaction costs. This fragmentation plus the greater share of crossbreds increased the handling costs in terms of reclassing and greater pre-sale inspection requirements. It may well be the case that only the major national firms had the expertise and cost structure to operate in Melbourne.

For cooperation to work, there has to be agreement on the distribution of the rewards of such cooperation. This appears to explain why Melbourne was far more cohesive than Sydney. However, did it matter whether or not the firms cooperated? In terms of the public good, it might be argued that disagreeable associations were less likely to be effective cartels. On the other hand, it was of benefit to all to have the orderly development of the wool market, where sales were staggered between centres, overheads shared, procedures understood and optimised, and trading disagreements effectively and objectively resolved. We have suggested above that there is some evidence of trade diversification, more mature market structures, and effective decision-making in Melbourne compared with Sydney.
Chart 1. Herfindahl indices of market concentration for wool brokers in Sydney and Melbourne
Chart 3. Principal Sydney Wool Brokers' Market Share 1902-40
Chart 4. Wool Sales, Merino and Crossbred

5 year average %

- NSW Merino
- VIC Merino
- QLD Merino
- SA Merino
- NSW Xbred
- VIC Xbred
- QLD Xbred
- SA Xbred