

## **Industry associations as facilitators of social capital: the establishment and early operations of the Melbourne Woolbrokers Association**

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*Relocation of the selling of Australia's wool clip from London to cities in Australia in the late nineteenth century led to the creation of wool selling industry associations, such as the Melbourne Woolbrokers Association. Highly successful in fostering competitive collaboration that improved market efficiency, the association rested on the social capital created by the participants, individuals with extensive connections in the pastoral, banking and transport industries. The collective social capital vested in the association enabled the earning of economic rents, firstly from the high trust created through internal cohesion and secondly from a capacity to span 'structural holes' between networks.*

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## **Introduction**

This study explores the role of industry associations as facilitators of social capital through an examination of the establishment and early operation of the Melbourne Woolbrokers Association [thereafter MWA]. The emergence of the MWA in 1890 was contingent upon the progressive relocation of the market for Australian wool from London to cities within Australia.<sup>1</sup> For the local market to compete with the old system of consignment to London, it had to offer benefits to the sellers, the local growers, and the buyers. Replacing the emergent local system of uncoordinated selling by individual brokers with a centralised point of sale operating with standardised rules and charges was critical to this process. Forming a new marketing institution required cooperation between broking firms that were also competitors. Moreover, transference of the physical market to Australia meant the weakening of social capital amongst those participating in the declining London market and required the creation of social capital to support new sets of relationships surrounding the local sales.

From its inception, the MWA was an effective organisation. That this was so is surprising given the severity of the problems facing the pastoral industry and most of the participating firms in the 1890s. Squeezed by falling revenues and heavy debt repayments, several participating firms faced bankruptcy, and two of the original members of the MWA were absorbed by rival firms. Such a potentially unstable group of members might be thought to be inimical to the development of trust and cooperation. Moreover, the end of the boom, which gave rise to ‘Marvellous Melbourne’,<sup>2</sup> revealed widespread corruption and dishonesty that touched many of those in the commercial and

social circles in which members of the MWA moved. Relationships, personal and commercial, were re-evaluated as scandals came to light.

How was the MWA able to develop high levels of trust and effective cooperation between its members in such a difficult environment? The MWA was embedded in time and place, an energetic outpost of Victorian Britain. Over the previous 40 years, the City of Melbourne and the Colony of Victoria had received an influx of British migrants, capital, ideas and institutions.<sup>3</sup> It was a society of joiners and participants, one with a strong associative capacity.<sup>4</sup> The flourishing colony was quickly populated with formal associations of all sorts – religious, mutual benefit, sporting, cultural and social – each replete with constitutions, rules and mechanisms for dispute resolution. The MWA was established by men who were well acquainted with the construction and operation of institutions that served the common purpose of their members. They were bound together in the MWA by recognition of the need to create and maintain, under pressure from the wool buyers, a better system of wool marketing. Knowledge of what could be lost if the MWA broke down imposed a discipline on its participants. The social capital, resulting from iterative relations over time between the actors in this network, which established reputation and trust between those engaged in the relationship, came from an ‘investment in social relations with expected returns in the market place.’<sup>5</sup>

Social capital theory provides a lens through which we can better understand the workings of the MWA and the means by which it created ‘rents’ for its members. This was an institution whose effectiveness resulted from having a combination of strong and weak ties.<sup>6</sup> Frequent face-to-face communication between the same handful of individuals through the frequent committee work of the Association built ‘strong ties’.<sup>7</sup>

Following Coleman,<sup>8</sup> the MWA was a closed network, a tight group whose cohesiveness fostered a high degree of trust and efficient communication, which in turn reduced the risk of opportunism and shirking. The strong ties were critical in building trust to help mediate inter-firm disputes. Moreover, strong ties facilitated the construction and acceptance of a binding set of rules and regulations. Burt, on the other hand, identifies the value of a more open network, where members can span ‘structural holes’ in a social network to expand access to competitive resources.<sup>9</sup> These ties beyond the organisation may be ‘weak ties’, whose value Granovetter articulated; more important for Burt was the location advantage of an actor in the network, rather than the strength or weakness of a tie. Social capital is created in a network ‘where people can broker connections between otherwise disconnected segments’ to access resources beyond the immediate network.<sup>10</sup>

Many of the MWA members had a multiplicity of roles beyond this institution. They were directors or managers of stock and station agencies<sup>11</sup> whose businesses did more than sell wool.<sup>12</sup> Many were themselves wool growers and stud masters. Some had been career bankers, others sat on boards of non-pastoral related companies, and through membership of elite social clubs they mixed with men of influence in business, the bureaucracy and politics. Knowledge gained in other networks informed the perspective and decision making within the MWA.

The paper will discuss the formation and operation of the MWA in the context of the changing strategic imperative of the pastoral finance industry in the 1880s and 1890s. The relocation of the wool market to Australia increased the aggregate pool of commission income available from local markets. Firms could have chosen to engage in a price war to increase their market share. However, they chose to cooperate through the

MWA. The third section provides a detailed account of the workings of the MWA, illustrating how it created and drew on its social capital to generate ‘rents’ for its members. The conclusion explores the impact of the MWA on the firms whose members it represented.

### **Strategic Imperatives of the Stock and Station Agent Industry**

The formation of the MWA in 1890 coincided with a major change in the business model that had been employed by stock and station agents since the 1870s. For a generation the leading firms in the industry had been both bankers, playing a key role in financing the expansion of the pastoral industry, and commission agents. However, the industry was over extended by the late 1880s. Pastoralists, particularly in the newly settled drier regions, suffered the depredations of overgrazing, plagues of rabbits, and drought. Wool prices also fell. The stock and station agents faced many problems as a consequence: debtors defaulted, deposit and debenture holders withdrew their money, and credit became tighter in both London and in Australia where a serious banking crisis occurred in 1893.<sup>13</sup> Survival became the order of the day. Three of the five original members of the MWA were forced to reach agreements with shareholders and creditors to ‘reconstruct’ their business: Goldsbrough Mort [GM] underwent three reconstructions in 1893, 1894-95 and 1901;<sup>14</sup> the New Zealand Loan and Mercantile Agency [NZL&MA] suspended in July of 1893, was re-registered in 1894 and its capital was written down in 1897;<sup>15</sup> Australasian Mortgage and Agency [AMA] underwent a scheme of arrangement in 1894 before entering voluntary liquidation in 1903 and its wool selling business was acquired by the Australian Mortgage Land and Finance Company [AML&F], presaging that

company's entry into wool broking in Melbourne and Sydney.<sup>16</sup> Another company, the Union Mortgage and Agency [UMA] was absorbed into Australian Estates [AE] in 1899 and its capital heavily written down.<sup>17</sup> Only Dalgety came through unscathed.

In this context, generating cash from the commission side of the business became a strategic imperative for the industry. If the bulk of Australian grown wool was to be sold locally, the formally independent selling brokers needed to cooperate to create, in the words of an authority on British commodity markets, Graham Rees, an 'organised market'<sup>18</sup> whose efficiency matched that of its major rival, London. From the 1840s when sales of wool commenced in Melbourne, until the formation of the MWA, it suffered from several key defects. Each of the selling brokers ran auctions in their own premises and on its own terms. The ascendancy of the local market needed a central sale room and a uniform set of services offered by brokers, a common set of fees and charges, and dispute resolution arrangements for buyers and sellers. There had been movement in this direction over the years. Wool sellers learned to cooperate when arranging their sales rosters to avoid clashes. The buyers, some of whom were representatives of European mills, formed an association to negotiate with the selling brokers. These early groupings of both sellers and buyers were embryonic in many respects. A Victorian Wool Buyers Association [VWBA] began in 1877,<sup>19</sup> but seems to have operated on an ad hoc basis before formalizing itself as a rules-based standing committee from 1891, a mirror image of the MWA.<sup>20</sup> It was the buyers who pushed hardest for fundamental changes in the nature of the market, most notably having a centralised auction room as existed in London.<sup>21</sup>

Rivalry rather than cooperation characterised inter-firm behaviour amongst the brokers. Old established houses such as Hastings, Cunningham and Co., Fisker and Gibson, and Clough and Co., Monkton D Synnot & Sons and P. N. Walker built their business through service and relationships.<sup>22</sup> While the receiving and selling commissions charged by brokers remained unchanged from the 1860s until the late 1880s,<sup>23</sup> competition for wool clips took place with companies offering rebates or discounts to growers, especially those with large clips for sale. This practice was tolerated insofar as it was practised by all concerned. It pushed down marketing costs to the larger growers but had limited impact on the market shares of the big selling brokers.

While none of the companies selling wool in Melbourne would have wanted a full-scale price war, the markedly different strengths of their respective balance sheets during the 1890s increased the likelihood of one occurring. Firms might have been reluctant to break the informal agreements on rebates previously because they feared detection and retaliation. Most of the clients of the Melbourne-based brokers had small clips to sell.<sup>24</sup> In these circumstances, any reduction in handling charges or selling commission to improve market share would have been easily observed by their rivals. However, the threat of effective retaliation weakened as uncertainty increased about the likelihood of the survival of individual firms in the Association. For instance, both GM and NZL&MA were suspended from business pending their respective reconstructions.<sup>25</sup> The creditors and shareholders of both companies agreed to the terms put to them and with the approval of the courts the companies continued to trade. However, this outcome was by no means certain. If a competitor had disappeared, its business would be shared out amongst those still standing. A brief price war could destabilise the industry, forcing

those most distressed companies into liquidation or acquisition by other firms. Even in the absence of a price war, this was the fate of the AMA and UMA.

Whatever the benefits a price war might bring a victorious company, the impact on the industry would have been catastrophic. Buyer confidence in the Australian selling system depended on wool coming into the store of a broker shortly after shearing. This would have been undermined were selling brokers to compete aggressively for business because the tight auction schedules in selling centres along the east coast of Australia would have been disrupted as growers held back their clip waiting for the best deal, or shifted between selling brokers after placing their wool in store, or haggled with a number of consignors or brokers over commission rates. Organising an enforceable industry agreement that set rules for the sale of wool and a process for dispute resolution was required to enhance the competitive position of marketing wool in Australia. The London market, which sold nearly a half of Australian wool through the 1890s, remained a serious challenger.<sup>26</sup>

### **The Formation of Social Capital in the MWA**

The MWA<sup>27</sup> was established in 1890, probably in response to a threat issued by buyers in October 1889 to boycott the coming sales. Its first recorded meeting was held on March 17 with senior members of all of the major Melbourne wool broking firms present, indicating the importance they attached to this new body.<sup>28</sup> At the time of its creation a new opportunity was unfolding for wool growers and traders. The opportunity to reposition themselves as local selling brokers needed careful thought by stock and station agents. Only the larger firms, whose colonial capital city offices and extensive reach into

local country towns provided the necessary locational and supply chain resources, were candidates for wool broking on the scale necessary if local sales were to overtake those in London. Achieving that end involved new collective investments in what Alfred Chandler would call 'organisational capabilities'.<sup>29</sup> New business relationships were required, particularly with an enlarged number of wool buyers with whom they would have ongoing exchange relationships. Among the wool broking firms themselves a new *modus operandi* was needed, one which would mute their intense rivalry and competition, and foster cooperation in the management and operation of regional wool auctions. Each of these considerations highlighted the need for a high trust, cooperative environment across the restructured supply chain for the wool trade. At the focal point of this chain stood the wool selling broker, who sought the cooperation of wool growers, local forwarding agents, wool buyers, and other brokers. The MWA, and its sister associations in the other colonial port cities, was the vehicle for building these relationships.

### *Bonding Social Capital among the Brokers*

The formation of the MWA provided an opportunity to transform existing personal social capital into a synthetic or organisational form of social capital among the firms, which promised to expedite cooperative strategies where needed and instituted a form of trust not dependent upon the interaction of particular individuals.<sup>30</sup> Membership of the MWA established a shared identity that fostered a commitment to the orderly marketing of wool. Individual members acquired information and exercised influence, enhancing personal status and cementing bonds between erstwhile competitors. Organisationally, the

MWA was a strategic network mechanism for inter-firm governance that set norms, rules, and processes for group competition and cooperation.<sup>31</sup> The MWA attenuated uncertainty and transaction costs within the wool market. However, the maintenance of the social capital created within the MWA was not without cost. Social capital resources rested on what Bourdieu notes is ‘an unceasing effort of sociability, a continuous series of exchanges in which recognition is endlessly affirmed and reaffirmed.’<sup>32</sup>

The MWA was an Association in little more than name when representatives of the biggest firms met towards the end of the 1889-90 wool selling season. This first step relied on existing stocks of social capital. Ville and Merrett drew attention to the social networks and relationships that existed among the senior personnel of Melbourne wool broking firms by the interwar period.<sup>33</sup> Similar connections existed in the late nineteenth century – the propinquity derived from common social background, education, networks, geographic contiguity of workplace and residence, and industry experience.<sup>34</sup> Melbourne and Victoria had played a central role in the development of the pastoral industry. A small group of leading pastoralists, particularly in the western district of Victoria, improved the breed of merino and cross bred sheep, and invested in the expanding pastoral frontier in New South Wales and Queensland. Melbourne stock and stations agents led the way in financing the expansion of the industry in other colonies. Many individuals spanned roles, simultaneously a wool grower, stud master and financier.<sup>35</sup> By 1890 the participants in the wool trade had a fair measure of each other’s worth, gleaned from decades of interaction in the spheres of business, club land, politics and family.

The initial impetus to the formation of the MWA was pressure from the buyers for an improved market. Selling brokers feared that the united buyers would push for lower

charges and commissions. The principal objective of the new Association was to ‘maintain uniformity of charges for selling wool...and for the protection of the interests of the members of the Association.’<sup>36</sup> Minutes of the committee meetings in the first two years reveal that the main business was to get agreement about ending rebates and negotiating with the buyers about the conduct of auctions. The Association continued to operate with a minimal set of formal rules. Until mid-1893, the constitution was contained in six brief clauses which outlined the objectives of the Association, its membership, procedures for the admission of new members, voting rights, and meetings.<sup>37</sup> During this early period, the frequent interaction of the committee members dealing with the many issues brought before them created a pool of knowledge about the practices of wool auctions and relations with all parties involved in a process that was still overwhelmingly tacit.

Commitment to the Association during its infancy was influenced by two events. The shearers’ strike of 1890 was more of a clash between labour and capital than a conflict about wages and conditions. It reshaped the political landscape. The strike, which spread to carriers, wharf labourers and marine officers, threatened the interests of the pastoral industry, the sheep might not be shorn or if there was a clip it might not leave port. Leading figures in the industry quickly organised as a political counter force, forming the powerful and influential Pastoralists’ Unions.<sup>38</sup> Leading lights in the Victorian Pastoralists’ Union, such as F. E Stewart of GM and David Elder of NZL&MA, were members of the MWA. The political conflict with organised labour strengthened the bonds within the MWA. Union in pursuit of a common interest was validated and legitimated in the eyes of the participants. The MWA became more than a trade

association; it was part of a broader struggle between capital and employers, and the threat of organised labour. Moreover, the MWA saw itself as an integral part of an industry upon whom the colonies' prosperity depended. In these circumstances, individuals committed emotionally and ideologically to the MWA. To do otherwise, or for their companies to withdraw, would be seen as a political act of class treachery.

Secondly, the harsh depression of the 1890s threatened the stability of the MWA. Maintaining trust within the MWA was challenged in two ways. The first related to the issue of organisation trust. This came to the fore as a number of the participating companies were victims of the economic downturn. As noted above, the survival of several members hinged on schemes of arrangement to stave off bankruptcy. The second issue related to individual trust and stemmed from the dramatic erosion of commercial ethics within Victoria, and particularly in Melbourne, in the late 1880s.<sup>39</sup> In part these behaviours resulted from the easy riches associated with the flood of British capital, which underpinned the expansion of pastoral lending, washing across other parts of the economy exciting speculation in real estate subdivision, residential construction and the stock market. A conservative community became caught up in a frenzy of speculation and greed. The eventual crash in the various asset markets revealed that the bubble had been inflated by widespread corruption and sharp dealing.<sup>40</sup> Previously established anchors of trust and reputation were compromised. Could the members of the Association continue to trust their fellows? For the most part none of the members were amongst the worst offenders.<sup>41</sup> However, David Elder, the Australian general manager of the NZL&MA, had prepared accounts that a British judge declared had been 'calculated to

mislead.’<sup>42</sup> John Horsfall, a director of GM, had been accused of embezzlement in 1889 and in 1894 improperly secured a loan of £10,000 for his son-in-law.<sup>43</sup>

The character of the Association was changed dramatically by events in the second half of 1891. Without any specific reason, the NZL&MA indicated in June that it would withdraw despite being prevailed upon to consider the ‘drawbacks and dangers to all parties’ if it left.<sup>44</sup> Later in the year the buyers pressed again for the MWA to operate a central auction room, which the Minutes noted was “beyond the limit of [its] functions.”<sup>45</sup> However, the threat of a buyer boycott of sales and the prospect of NZL&MA operating outside the Association tipped the balance. In November and December the MWA negotiated with the VWBA to find a venue, the Wool Exchange Building, satisfactory to both parties that would be available for the 1892-93 selling season. The NZL&MA returned to the fold. Over the next three years the MWA became an institution with a more formal governance structure, the original six clauses increasing to 34. This was primarily because the operation of the central auction room required members to contribute funds towards its lease and refurbishment. Thereafter the Association expanded its rules regarding the financial obligations of its members and the responsibilities of those able to operate its bank account. The new constitution outlined in more detail the rules of admission of new members and the processes for discipline of existing members. The rules explicitly outlawed members engaging in non-price competition, such as sponsoring local agricultural and pastoral societies or issuing market reports under their own names, that had existed before the formation of the MWA.<sup>46</sup>

This process of codifying rationalisation enshrined in rules and regulations turned the MWA into a third-party bridging organisation that was independent of the influence

of any particular individual member or their company. Clause 12 of the 1896 rules stated: ‘The entire management of the Association and of all its affairs shall be in the absolute control of a Committee, to be formed of one representative a delegate of each member...’<sup>47</sup> In effect, all the signatories accepted that the MWA would exercise a system of associational governance through a process of structured bargaining among members where equality within the institution was paramount. For instance, representation from each member company, voting rights, and subscription fees and the posted loyalty bonds that might be forfeited in case of breach were equalised irrespective of the size or market share of members. Moreover, the office-holding positions, including Chairman, rotated annually among members.

Disputes between members were to be handled through transparent processes. There were penalties for breaches of the constitution in the form of escalating fines up to £500, and temporary suspensions distinguished the minor from the inveterate offender. However, there was little recourse to these formal punishments. A willingness to forgive occasional transgressions while expelling more serious or repeating offenders helped to solidify the sense of trust among members and the recognition, by members and external parties, of the reputation signals conveyed by membership. Members sought recourse for violations of the rules and spirit of membership through deliberations of the question by the committee of the MWA. In 1896 GM accused two other members of offering rebates to customers and guaranteeing prices. The charges were denied and no action was taken.<sup>48</sup> In 1899 there was a dispute between the AMA and UMA, the latter being accused of improperly employing someone who had been an AMA ‘traveller’ within the previous 12 months.<sup>49</sup> These differences were also settled amicably. As a result of such

complaints, the MWA modified its rules to require accusers to name suspect firms and to forfeit £10 if the committee dismissed the charge.<sup>50</sup> Members were reluctant to engage in behavior that might warrant serious conflict or expulsion. Voluntary resignation required six months notice, which provided an opportunity for reconsideration and reconciliation.<sup>51</sup>

The MWA became increasingly independent of the firms whose representatives sat on its committee. While the constitution did not specify a meeting place, these were held in locations rented or owned by the MWA, reaffirming the separate status of the organisation. Such independence was extended in 1912 with the incorporation of the Melbourne Wool Exchange Pty Ltd as the owner of the city wool auction rooms. In 1895, the MWA held its first Annual General Meeting and issued a report of its activities. Importantly, each member firm nominated three men to represent it, ensuring that there would be a quorum and giving all members the means to participate. Moreover, sub-committees that operated on an ad hoc basis until some time between 1893 and 1896 became regularised, most importantly with the establishment of a Trade Committee that dealt with the routine marketing issues.

The social capital literature is replete with conjecture and evidence of the role of recurrent interaction through organisations as a stimulus to building trust and cooperation, and in enhancing the capacity of that organisation to act in the interests of its constituents.<sup>52</sup> The detailed minutes of the Management Committee and Trade Committee of the MWA permits a closer analysis of this interaction. Two conclusions are clear. The participation rates were extremely high with all the major companies sending a representative to each meeting, with provision for a substitute in the event of an absentee.

Second, the minutes point towards an organisation that was highly interactive, participatory, and based on face-to-face communication, thereby fostering the building of trust and cooperation. The almost complete absence of threats of resignation, and an unwillingness to push divisive issues and minority viewpoints to the limit, points to a culture of ‘voice’ and ‘loyalty’ within the organisation, rather than of ‘exit’ or ‘passivity’. The consequences were explicitly recognised in the 1898 Annual Report, which 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.’<sup>53</sup>

Participation in the MWA generated rents for its members in a variety of forms. The Association was an effective mechanism for the reduction of opportunistic behaviour. There was little evidence of any serious or repeated breaches of agreements. The close ties within the MWA allowed highly effective monitoring, which imposed discipline upon its members. The prospect of expulsion from the Association, particularly after the establishment of a central auction room, was a credible threat as the outsider would have to bear the costs of running their own sales. Moreover, the Association was able to reduce the operating costs of its members. Marketing costs, such as printing of sale catalogues, placing newspaper advertisements, publishing market reports, making donations to agricultural shows and societies, and sending telegrams of sales results to London, which individual firms had previously borne were undertaken by the MWA and rationalised.<sup>54</sup> Acting through the MWA, brokers used their collective bargaining power to achieve, for example, a reduction in fire insurance premiums and coastal shipping freight rates.<sup>55</sup> While the provision of a central auction room involved additional outlays

by member firms in the short term, there were considerable benefits arising from scale economies and tighter scheduling of sales. Within a year, a number of the smaller wool brokers sought permission to sell their wool in the auction room. Two, the National Wool Company and the Victorian Farmers' Loan and Agency Company, were admitted as members of the MWA in late 1894. However, both found the cost of subscriptions, bonds and contributions towards the rental and later, the capital cost of the auction room, a major burden. Moreover, compliance with the Association's rules regarding charges was particularly irksome to companies that had relied heavily on rebates to growers for custom. Both quit the MWA within a few years. It is worth noting that when the National Wool Company resigned in 1897, having abandoned wool broking, it thanked the MWA 'for their considerate treatment' and for waiving the six-month notice period.<sup>56</sup>

#### Social Capital and Rent Creation along the Supply Chain

The growth of local auctions brought together wool brokers and buyers into new business relationships in Australia as each side embarked on new roles and responsibilities. Selling brokers and buyers transacted with each other daily across a wide range of functions, a situation susceptible to misunderstandings and disagreements in light of the new roles each had begun to play. These activities included the method of displaying wool for inspection, the bidding rules in the auction room, the responsibility for insurance, the terms under which the buyer could examine wool after purchase, charges for unsold wool still in store, the length of the prompt period from sale to clearance on board ship and so on.<sup>57</sup> The challenges of managing these responsibilities and forging new relationships were exacerbated by the pressures exerted from the rapid growth of the wool market. Any

protracted delays due to disputes would have a major impact on the efficiency of the market by creating upstream logjams in the supply chain.

Industry associations of buyers, the VWBA, and brokers, the MWA, provided a mechanism for inter-organisational communication and the negotiation of industry-wide solutions. From its earliest days, the MWA was in regular contact with the VWBA. However, the degree of commercial and social propinquity amongst the buyers was less evident than among the broking firms. The VWBA's members included representatives from a wide range of countries, including the USA, France, Belgium and Japan. Therefore, building trust and cooperation between the two groups in the form of synthetic social capital was critical, the foundations of which were iterative communications between participants in the industry.

These associations mediated disputes and mitigated their recurrence by establishing greater certainty and standardisation of wool market procedures and practices. When the VWBA was formed, matters of immediate concern to the buyers were discrepancies in bale weights and the terms concerning discount for prompt payment.<sup>58</sup> Face-to-face contact between small groups of representatives built trust and respect. Moreover, from the very early days the MWA and VWBA held biannual conferences, at the start and end of the selling season, to discuss and resolve differences, and to find ways of improving the supply chain's efficiency. On day-to-day matters, a standing subcommittee was established with three representatives from each association. These forms of repeated interaction built social capital. In March 1895 the MWA noted that relations with the VWBA were 'most friendly' and specifically noted that the relationship promises 'to remove all fear of disagreement in the future as well as to

introduce desirable improvements in the conduct of business.’<sup>59</sup> In 1906 the VWBA wrote to MWA congratulating them on the outcome of the recent conference between the two associations, which resolved a ‘somewhat knotty problem’, a heated disagreement initiated by the buyers about the number of sale days in Melbourne. Differences flared from time to time on particular issues<sup>60</sup> but these were resolved through a well recognised process of negotiation. Intense diplomacy, punctuated by cricket matches<sup>61</sup> and lubricated with dinners at the Australian Club, maintained ‘cordial’ relations.<sup>62</sup>

### Costs and Benefits of Association

The Melbourne-based wool brokers enjoyed commercial advantages from their participation in the MWA in the first decades after its establishment. Collective action protected revenues from price cutting and marketing expenditures were reduced. More importantly, the selling brokers devised a system of centralised auction in close collaboration with wool buyers that cemented the ascendancy of Australia as a marketing centre for wool. On the cost side of the ledger, the financial investments that underpinned the MWA, its premises, a secretary, and an advertising budget were modest compared with the balance sheets and cash flows of the participating firms. On the benefits side, knowledge of individuals and their parent firms was shared, recombined and translated into action through the network of actors within the MWA. The Association recognised that it possessed a stock of knowledge about wool marketing that was greater than any of the constituent firms. To protect the tacit knowledge acquired through years of experience the Association and the companies would permit men who represented one firm to represent another if they changed employer. For instance, F. E. Stewart represented GM and then Younghusband on the MWA.

Two distinct types of rent-generating knowledge were embedded in the MWA and shared through social capital mechanisms. The first, 'Coleman rents', derives from sociologist James Coleman's analysis of the gains from strong ties that bind members into a cohesive group.<sup>63</sup> This concept of strong ties can be seen in the work done by the Association to structure the rules for wool marketing. Much of the early activity of the MWA sought to reach inter-firm agreements, not only on charges but also on establishing rules and procedures that provided the institutional architecture for the market. The records of the Association show a high level of frequency of meetings and discussion between company representatives. The representatives drew on their knowledge of the industry, which they shared to create organisational knowledge about the operations of the wool market. The social capital forged through this type of association results from the tightness and cohesion of the group which fosters a high degree of trust and efficient communication. The formation of the MWA transformed the breadth and depth of social capital shared amongst the participants in Melbourne's wool market.

One example of the pay offs to members from these strong ties is the renegotiated pricing structure introduced in July 1896. Previously, the Association bound its members to impose a wide range of charges on sellers: a commission fee set at a percentage of the price received for each bale sold, and a volume-based receiving charge which covered the warehousing, weighing, lotting, repacking of sample bales, fire insurance, and advertising costs for wool. It is likely that this miscellany of charges was a legacy of the time when each firm set its own conditions. From 1896, the sundry charges for handling wool were combined into a single and reduced fee of  $\frac{1}{8}$  penny per pound. However, this reduction in handling charges was more than offset by a sharp increase in the sales commission

charge, which was higher for clips of lower value. For instance in 1893, a clip whose total value was more than £200 paid 1½ per cent,<sup>64</sup> while a clip of lesser value paid 2½ per cent. In 1896, the cut off value was raised to £300. In 1901 the break point was reduced to £200 and a lower commission was imposed on large clips with a value above £500.<sup>65</sup> As noted above, more than three-quarters of flocks in Victoria numbered less than 500 sheep. A rough calculation<sup>66</sup> suggested that most of the pastoralists selling through the MWA between 1896 and 1901 would have had their sales commission fees substantially increased. This relative shift from volume to value based charges in the 1890s had a number of beneficial effects for members of MWA. It reduced the transaction costs of computing a range of volume-based charges. It more closely aligned charges with actual costs by providing lower charges for the larger clips where scale economies in selling existed. Finally, the new pricing structure meant a greater sharing of market risk between the sellers and the growers as marketing costs would rise and fall with auction prices.

The second form of gains, ‘Burt rents’<sup>67</sup>, derived from what sociologist Ronald Burt described as the benefits of spanning structural holes between networks with loose ties. As found here, Burt rents arose from the capacity of the MWA to engage with outside parties along the value chain, with growers, buyers, bankers, shippers, insurers, railway commissioners and the like, and with groups of wool brokers in other regions. The social capital created and deployed between networks was a product of the ability of individuals in the MWA to span structural holes or gaps in the network. Social capital can arise from openness as well as cohesion in the network. Individuals within the network who were positioned to span these gaps to connect with other networks were able to

cement ties with disparate parties and tap new knowledge, thereby creating wider pools of social capital of strategic value in the market for the MWA.<sup>68</sup>

The members of the MWA generated both Coleman and Burtian rents because it was a network institution that was able to leverage gains from ‘strong’ ties, from ‘weak’ ties, and from the ‘boundary-spanning’ activities of its members. The constitution required each member firm to nominate three representatives. These representatives were drawn from directors and executives, the general manager of the company, and second tier men such as the Melbourne manager, the pastoral manager, station inspector or the wool and produce manager.

The directors were those with the contacts to reach out beyond the day-to-day workings of the Association. They provided the resources that came from ‘weak ties’ to distant parties; their social prominence especially allowed them to ‘broker’ connections with prominent persons in other networks. For instance, men such as Fiskén<sup>69</sup> and Currie<sup>70</sup> of the AMA were pioneer pastoralists, sheep breeders and wool growers, who brought a lifetime of experiences and contacts into the MWA. The business interests of the directors of the stock and station agents sitting on the committee of the MWA extended to other colonies, New Zealand and to London. The leading figures on the MWA were directors of banks and insurance companies, mining, distilling, frozen meat works and woollen mills. Their involvement spread to organisations such as local government and the colonial legislature, the Anglican and Presbyterian Church, the Farmers Club, the National Agricultural Society and Pastoralists’ Associations. Like many men who enjoyed commercial success and social standing, they were members of the elite Australian and Melbourne Clubs. Fiskén, for instance, was president of the latter

in 1901.<sup>71</sup> In short, this group within the MWA were tied into a number of interconnected and interlocking spheres, within Melbourne, in other Australian colonies and in London.

The company managers who were representatives on the MWA generated most of the 'strong ties' through their detailed knowledge of the operation of wool sales in Melbourne and London. A few of the managers had broader experience such as Stewart and Cooper of GM and Edmond Young and J. J. Falconer, long serving general managers of AML&F who had been career bankers.<sup>72</sup> However, once the MWA became the key rule-making body structuring the auction market in Melbourne, the value of their knowledge about pastoral lending was joined to the newly created knowledge about marketing. Managers of the wool and produce departments rose in importance compared to once highly influential station inspectors. Their social capital was at the heart of the operational resources that sustained the MWA centralised auction rooms.

## **Conclusion**

The MWA demonstrates the symbiotic relationship between the existence of social capital and institutional effectiveness. Extant personal social capital, forged through commercial and social interaction amongst the participants in the Melbourne wool trade, was a necessary pre-condition to the formation of the MWA. Previously cultivated levels of respect, trust and reputation, enabled competitors to put their differences aside in pursuit of a common aim: a set of uniform fees for wool broking and, after the establishment of a central auction room in 1892, setting standards and rules to increase efficiency and transparency in the market. The workings of the MWA, with its frequent meetings between members, and with buyers and selling brokers in other centres, created

a wider and deeper pool of social capital, that was synthetic and organisational in nature and that reinforced and encouraged the personal. Individual knowledge residing within the MWA became codified and organisational knowledge over time as decisions were committed to paper, in the form of amendments to the constitution, the publication of annual reports, and the minutes of meetings and conferences.

In so doing, the social capital of the MWA reached back into the workings of the pastoral firms that had created it. The MWA and its Trade Committee became the loci of decision making about matters of vital commercial importance to its members. Companies were bound by decisions made by an autonomous body that practised, as noted above, collective decision making with each member having an equal voice and rotating chairmanship. Members firms delegated authority to a body whose actions might not always coincide with their best interests. The MWA generated a dynamic cohesion that shaped behaviours within its constituent firms rather than being a simple forum for companies to air their views. It presaged industry-wide bodies that were created to act on the other key issues affecting its interests particularly the acquisition and sale of Australian wool by the Government during the First World War.<sup>73</sup> Members of the MWA, such as George Aitken, were prominent in the creation and operation of these industry bodies, whose success might have been uncertain if not for the social capital-induced cohesion that the MWA had created among many of the industry players.<sup>74</sup>

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<sup>1</sup> Barnard, *Australian Wool Market*; Ville, "The Relocation of the International Wool Market".

<sup>2</sup> Davison, *Marvellous Melbourne*.

<sup>3</sup> Serle, *The Golden Age*; ---, *Rush to be Rich*.

<sup>4</sup> Putman, "Tuning In, Tuning Out."

<sup>5</sup> Lin, *Social Capital*, 19. Lin adds that social capital – 'the capital captured through social relations' – is an asset that arises 'by virtue of actors' connections and access to resources in the network or group of which they are members.'

<sup>6</sup> Granovetter, "The Strength of Weak Ties"; Walker, Kogut and Shan, "Social Capital, Structural Holes"; Kogut, "Network as Knowledge".

<sup>7</sup> Granovetter, "The Strength of Weak Ties".

<sup>8</sup> Coleman, "Social Capital".

<sup>9</sup> Burt, *Structural Holes*; ---, "Contingent Value of Social Capital"; ---, "Structural Holes versus Network Closure"; Granovetter, "The Strength of Weak Ties"

<sup>10</sup> Burt, "Structural Holes versus Network Closure", 31.

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<sup>11</sup> We follow Ville in calling these firms stock and station agents rather than the alternative pastoral finance companies.

<sup>12</sup> Ville, *Rural Entrepreneurs*.

<sup>13</sup> *Australasian Insurance Banking and Record [AIBR]*, 1892, 418; *Ibid*, 1900, 968; *Ibid*, 1912, 11; Merrett, "Australian Banking."

<sup>14</sup> Nash, *Australasian Joint-Stock Companies*, 1899, 131-33; *Ibid*, 1907, 185.

<sup>15</sup> *Ibid*, 1899, 156-7; *Ibid*, 1907, 220-21

<sup>16</sup> *Ibid*, 1899, 104-5; *Ibid*, 1907, 143-4; Bailey, *Pastoral Banking*, 180-84.

<sup>17</sup> Nash, *Australasian Joint-Stock Companies*, 1899, 181; *Ibid*, 1907, 144-5.

<sup>18</sup> Rees, *Britain's Commodity Markets*, 326.

<sup>19</sup> Sutherland, *Victoria and Its Metropolis*, Vol. 1, 507.

<sup>20</sup> Barnard, *Australian Wool Market*, 110.

<sup>21</sup> Rees, *Britain's Commodity Markets*, 325.

<sup>22</sup> Ville, *Rural Entrepreneurs*.

<sup>23</sup> Barnard, *Australian Wool Market*, 115.

<sup>24</sup> Coghlan, *Statistical Register*, Table 29.

<sup>25</sup> *Australasian Pastoralists' Review*, Vol 3, (1890), 203.

<sup>26</sup> Ville, *Rural Entrepreneurs*, Table 6.2, 126.

<sup>27</sup> The records of the MWA, including its minutes, constitution and annual reports, have only recently appeared in the public domain. They are held in the University of Melbourne Archives, accession UMA 79/178.

<sup>28</sup> MWA Minutes, various. The small firm of Synnot Brothers which had been trading since 1873 was not a member. We do not know whether the firms which joined later, R. Goldsbrough Row and Victorian Farmers Loan and Agency were trading in 1890. A later member, the National Wool Trading Company of Australia was registered in August, 1893, Nash, *Joint-Stock Companies Yearbook*, 1899, 152.

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- <sup>29</sup> Chandler, *Scale and Scope*.
- <sup>30</sup> Laird, *Pull*, 54-5.
- <sup>31</sup> Gulati, Nohria and Zaheer, “Strategic Networks”.
- <sup>32</sup> Bourdieu, “Forms of Capital”, 104.
- <sup>33</sup> Ville and Merrett, “Investing in Inter-organisational Communication”.
- <sup>34</sup> de Serville, *Pounds and Pedigrees; --- The Australian Club*.
- <sup>35</sup> Serle, *Rush to be Rich*, 47-50.
- <sup>36</sup> MWA, Rules and Regulation, June, 1893, clause 1.
- <sup>37</sup> MWA, Rules and Regulations, June, 1893, clauses 1-6.
- <sup>38</sup> Rickard, *Class and Politics*.
- <sup>39</sup> Serle, *Rush to be Rich*, 262; Davison, *Marvellous Melbourne*, 40.
- <sup>40</sup> Serle, *Rush to be Rich*, 258-71; Canon, *Landboomers*.
- <sup>41</sup> Canon, *Landboomers*.
- <sup>42</sup> Cain, “Pastoral Expansion and Crisis”, 196-8.
- <sup>43</sup> Swan, “Horsfall, John Sutcliffe”, 426-7.
- <sup>44</sup> MWA Minutes, 15 Jun.1891. The company’s Melbourne manager, Mr Cooke, had resigned and gone to a competing firm, AML&F, earlier in the year. The events may have been connected. MWA Minutes, 8 Jan.1891.
- <sup>45</sup> MWA Minutes, 19 Nov..1891.
- <sup>46</sup> The consolidated changes appear in MWA Rules and Regulations,1896,
- <sup>47</sup> MWA Rules and Regulations, 1896, clause 12.
- <sup>48</sup> MWA Minutes, 17 Jul.1896.
- <sup>49</sup> MWA Minutes, 17 Jul1896; *Ibid*, 18 Apr.1899.
- <sup>50</sup> MWA Rules and Regulations, 1901, clause 21A.

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<sup>51</sup> MWA Constitution.

<sup>52</sup> Putnam, “Tuning In, Tuning Out”; Granovetter “The Strength of Weak Ties”; --- “Economic Action and Social Embeddedness”; Lin, *Social Capital*; Burt, “Contingent Value of Social Capital”; --- *Structural Holes*; Coleman, “Social Capital”; Kogut, “The Network as Knowledge”; Walker, Kogut and Shan, “Social Capital, Structural Holes.”

<sup>53</sup> MWA Annual Report, 1898.

<sup>54</sup> MWA Minutes, 14 Apr.1890; *Ibid*, 27 Aug.1890; *Ibid.*, 13 Oct.1890

<sup>55</sup> MWA Minutes, 24 Aug.1890; *Ibid*, 3 Oct.1890.

<sup>56</sup> MWA Minutes, 23 Apr..1897.

<sup>57</sup> MWA, Rules and Regulations, Schedule A, various.

<sup>58</sup> Barnard, *Wool Market*, 110; MWA Minutes, 13 Oct..1890.

<sup>59</sup> MWA Minutes, 15 Mar.1895

<sup>60</sup> *AIBR*, October 1908, 845.

<sup>61</sup> *Australian Pastoralists’ Review*, Vol.2 (16 Mar 1892 to 15 Feb 1893), 543.

<sup>62</sup> MWA Minutes, 9 Feb.1906; Annual Report, 1913.

<sup>63</sup> Kogut, “Network as Knowledge”, 414; Coleman, “Social Capital”.

<sup>64</sup> Barnard argues the commission prevailing from the 1860s until 1889 had been 1½ per cent. An increase from 1½ to 2½ per cent is an increase of two-thirds. Barnard, *Australian Wool Market*, 115.,

<sup>65</sup> MWA, Rules and Regulations, June 1893; *Ibid.*, July 1896; *Ibid*, October 1901.

<sup>66</sup> Flock size taken from Coghlan, *Statistical Register*, Table 29. Average fleece weight per Victorian cross breed sheep from Hawkesworth, *Australian Sheep and Wool*, 166. The price of wool from Barnard, *Australian Wool Market*, Table XXVII, 229-30.

<sup>67</sup> Kogut, “Network as Knowledge”, 413.

<sup>68</sup> Burt, *Structural Holes*; --- “Contingent Value of Social capital”; Kogut, “Network as Knowledge”.

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<sup>69</sup> Hone, “Fisken, Archibald”

<sup>70</sup> Hone, “Currie, John Lang”

<sup>71</sup> Scott, *Melbourne Club*, 103.,

<sup>72</sup> Cain, “Pastoral Expansion and Crisis”, 196; Bailey, *Pastoral Banking*, 123-7 & 142.

<sup>73</sup> These included the Central Wool Committee, the Federated Wool Selling Brokers of Australia, and the National Council of Wool Selling Brokers.

<sup>74</sup> Le Couter, “Aitken, George Lewis”, 24-5; Barnard, “Wool Brokers”..