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

### Abstract

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 (MWA). Highly successful in fostering competitive collaboration that improved market efficiency, the Association rested on the social capital brought to it and further developed 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 reinforced by formalised sanctions, and secondly from a capacity to span 'structural holes' between networks outside of the Association.

### Keywords

associations, industry, social, association, establishment, operations, woolbrokers, facilitators, capital, early, melbourne

### Disciplines

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

David Merrett, Stephen Morgan and Simon Ville

Keywords: Australia, Business Associations, Wool Selling, Social Capital, Business Networks

*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 brought to it and further developed 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 reinforced by formalized sanctions and secondly from a capacity to span 'structural holes' between networks outside of the Association.*

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## **Introduction**

This study explores the role of industry associations as facilitators and beneficiaries 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 March 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 additional 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 a new set of relationships between actors in local networks to build social capital.

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 member firms in the 1890s. Squeezed by falling revenues and heavy debt repayments, several firms within the MWA faced bankruptcy during its first decade, 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 1880s' boom, which had given 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> They made up 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. Social capital was built by iterative relations over time between the actors in this network. Put differently, what Lin called an ‘investment in social relations with expected returns in the market place’ [delete this comma] established reputation and trust among those engaged in building the MWA.<sup>5</sup>

In its first decade the MWA evolved through two stages. Its formation was a defensive response to pressure from the newly organized wool buyers for a reduction in selling charges and improvements in the auction system. From 1890 until late 1892, the MWA

became a trade association whose principal concern was to negotiate an industry wide agreement on brokerage fees and charges. The Association achieved an agreement which was enforced through careful monitoring and a system of penalties for breaches. However, each member continued to operate as an independent selling agent. The second step began in late 1892 when the Association bowed to continued agitation from the buyers for a central auction room operating under its control. Assuming the central position within the wool market fundamentally altered the nature of the MWA. Cooperation amongst members was no longer focussed primarily on negotiating and enforcing a price agreement. Henceforth, the Association need to cooperate in the design and execution of a marketing process which offered efficiencies to all participants.

Social capital theory provides a lens through which we can better understand the workings of the MWA and the means by which it created 'economic rents' for its members.<sup>6</sup> This was an institution whose effectiveness resulted from a combination of 'strong' and 'weak' ties, and 'closed' and 'open' networks, applying concepts developed by sociologists that help in analyzing interactions within and between groups.<sup>7</sup> Frequent face-to-face communication between a handful of individuals through the numerous committee meetings of the Association built strong ties. Following the work of James Coleman, we show that internally the MWA achieved high levels of closure within its network, and its cohesiveness fostered a high degree of trust and efficient communication, which in turn reduced the risk of opportunism and shirking.<sup>8</sup> The strong inward or bonding 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 that ensured the governance of the Association and the efficiency of its oversight of wool marketing.

Many of the individuals who represented their firms on the MWA had a multiplicity of roles beyond it. Many were themselves wool growers and stud masters, others sat on boards of non-pastoral related companies, some had been bankers before joining the pastoral companies. Business careers and membership of elite social clubs brought these men into contact men of influence in business, the state bureaucracy and politics. Knowledge gained in other networks informed the perspective and decision making within the MWA. They were, to follow Ronald Burt, entrepreneurial ‘boundary spanners’, who could capture the value of an open network, where members span ‘structural holes’ (gaps) in an array of social networks to access competitive resources otherwise unavailable to a cohesive closed group.<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. Additional social capital for Burt can arise, therefore, ‘where people can broker connections between otherwise disconnected segments’ to access resources beyond the immediate network.<sup>10</sup> The MWA strength was that it could draw on networks with varying degrees of openness and closure, from ties that looked inward and other ties that looked outward, vesting a wealth of social capital in the MWA for the governance of the wool market.

The paper will discuss the formation and operation of the MWA in the context of the changing strategic imperative in the 1880s and 1890s of the stock and station industry from which the brokers were drawn.<sup>11</sup> The relocation of the wool market to Australia

increased the aggregate pool of commission income available in local markets. Firms could have chosen to engage in a price war to increase their market share as independent wool sellers. However, their directors chose to cooperate through the formation of 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 paper then examines social capital creation along the supply chain, particularly the relationship between the MWA and the buyers association. The costs and benefits of association are then assessed. The conclusion briefly 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 stock and station agents had employed 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, wool production 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>12</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>13</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>14</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>15</sup> Another company, the Union Mortgage and Agency [UMA] was absorbed into Australian Estates [AE] in 1899 and its capital heavily written down.<sup>16</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>17</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, local selling had suffered from several key defects. Each of the selling brokers ran auctions in its own premises and on its own terms. Despite many attempts to collude on prices, the brokers continued to compete. 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. It was the buyers who pushed hardest for fundamental changes in the nature of the market, most notably for having a centralised sales room as existed in London.<sup>18</sup> A Victorian Wool Buyers Association [VWBA] was formed in 1877,<sup>19</sup> but it 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>

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

The MWA<sup>21</sup> was established in 1890, probably in response to a threat issued by buyers in October 1889 to boycott the next selling season.<sup>22</sup> 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>23</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 were local sales to overtake those in London. Achieving that end involved new collective investments in what business historian Alfred Chandler called ‘organisational capabilities’.<sup>24</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, and wool buyers. The MWA, like 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 within it, which promised to expedite cooperative strategies where needed and instituted a form of trust not dependent upon the interaction of particular individuals.<sup>25</sup> The membership of the MWA established a shared identity that fostered a commitment to the orderly marketing of wool. Individuals within the MWA acquired information and exercised influence, enhancing personal status and cementing bonds between erstwhile competitors. Organisationally, the MWA provided a ‘strategic network’ mechanism for inter-firm governance that set norms, rules, and processes for group competition and cooperation.<sup>26</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 here, as elsewhere, 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>27</sup>

The MWA was an Association in little more than name when representatives of the biggest firms met. Taking the first step to form the Association relied on existing stocks of social capital. Ville and Merrett have drawn attention to the social networks and relationships that existed among the senior personnel of Melbourne wool broking firms by the interwar period.<sup>28</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>29</sup> Many of the key individuals in the big stock and station agencies spanned roles, often simultaneously a wool grower, stud master, pastoral entrepreneur and financier.<sup>30</sup> By 1890 the participants in the wool trade had a fair measure of each other's worth, favorably or unfavorably, 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 a central sale room and standardised conditions of sale. In turn, selling brokers feared that the recently united buyers would press for lower charges and commissions. The Association's Rules and Regulations cited its principal objective being to 'maintain uniformity of charges for selling wool...and for the protection of the interests of the members of the Association.'<sup>31</sup> Minutes of the Association's meetings in the first two years reveal that the main business was to get agreement about ending rebates offered to growers 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 contained only six brief clauses which outlined the objectives of the Association, its membership, procedures for the admission of new members, voting rights, and meetings.<sup>32</sup> During this early period, the frequent interaction of the 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.

The success of the Association was due to the high levels of commitment given by its member firms during its infancy. The first factor that strengthened the fledgling

Association was a realization amongst the member firms that cooperation was preferable to the alternative, a price war between independent selling brokers. Members firms, of whom most were under financial strain, opted for the certainty of the orderly marketing agreements presided over by the MWA. Moreover, the member firms recognized that any serious disruptions to the tightly synchronized timetable of sales within and between selling centres resulting from competition between selling brokers could deter the presence of foreign buyers. The London market, which still sold nearly a half of Australian wool through the 1890s,<sup>33</sup> remained a serious threat.

Commitment to the MWA was bolstered by an industrial dispute that became transformed into a conflict between labour and capital. The shearers' strike of 1890, which spread to carriers, wharf labourers and marine officers, posed an immediate threat to pastoral industry. Those associated with it quickly organised as a political counter force, forming the powerful and influential Pastoralists' Unions.<sup>34</sup> Representatives of member firms of the MWA, such as F. E Stewart of GM and David Elder of NZL&MA, were leading lights in the Victorian Pastoralists' Union. This political conflict with organised labour strengthened the bonds within the MWA. The MWA became more than a trade association; it became part of a broader struggle between capital and employers, against the threat of organised labour. In these circumstances, individuals representing their member firms committed emotionally and ideologically to the MWA. To do otherwise, or for their companies to withdraw, would have been seen as a political act of class treachery.

## **Bonding after the Opening of the Central Auction Room**

The decision taken by the MWA in late 1891 to operate a central auction room greatly increased the rents available to its member firms. Pressure from the VWBA continued from the beginning of the new 1891-92 season. The defection of one of the founding members, the NZL&MA, in June 1891 eventually forced the hand of the MWA. The remaining members urged the NZL&MA to consider the 'drawbacks and dangers to all parties' if it left.<sup>35</sup> The Association continued to hold out against the buyers, its Minutes noting that the operation of central sales room was 'beyond the limit of [its] functions.'<sup>36</sup> However, the threat of a buyer boycott of sales and the prospect of the VWBA dealing with NZL&MA while it operated outside the Association tipped the balance. By December the MWA had 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.

By early 1892, the MWA had finished a two-step process enabling it to serve as the governance structure for wool marketing. It had completed negotiations between its members to agree on a common set of fees and had taken charge of the auction process. The rules were tightened. A number of smaller selling brokers had their applications to join rejected or withdrew soon after being admitted.<sup>37</sup> The Association had reached a point where it could withstand the shocks arising from the onset of the financial crisis in 1893. As noted above, most of the member firms struggled to stave off bankruptcy and liquidation. Two of the smaller firms were ultimately absorbed into larger competitors. The Association continued to function effectively despite the heightened uncertainty surrounding its membership. For instance, GM and NZL&MA ceased trading for two

months from late June and early July pending their reconstructions.<sup>38</sup> The financial problems arose from poor management of commercial risks rather than from the fraud and corruption that had tainted many businesses during the feverish boom of the late 1880s and the onset of depression. John Horsfall, a director of GM, sailed close to the wind having been accused of embezzlement in 1889 and in 1894 improperly secured a loan of £10,000 for his son-in-law.<sup>39</sup> David Elder, the Australian general manager of the NZL&MA, prepared accounts that a British judge declared had been ‘calculated to mislead.’<sup>40</sup> However, these behaviours were the exception rather than the rule. There was no systemic loss of trust amongst the member firms or within the MWA.

After the decision to operate a central sales room, the MWA became an institution with a more formal governance structure, the original six constitutional clauses increasing to 34. This was primarily because the operation of the auction room in the Wool Exchange Building 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. Moreover, 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, as had occurred before the formation of the MWA.<sup>41</sup>

This process of codifying conduct through rules and regulations turned the MWA into a third-party bridging organisation that was independent of the influence of any particular member firm. For instance, Clause 12 of the 1896 Rules and Regulations 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 or delegate of each member...'<sup>42</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, 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 member firms.

Disputes between member firms 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 in reality little recourse to these formal punishments. Members were reluctant to engage in behavior that might warrant serious conflict or expulsion. 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 alike, of the reputation signals membership conveyed. To prevent member firms introducing vexatious claims, the MWA modified its rules to require accusers to name suspect firms and to forfeit £10 if the charge was dismissed.<sup>43</sup> Moreover, voluntary resignation required six months notice, which provided an opportunity for reconsideration and reconciliation.<sup>44</sup> Members sought recourse for violations of the rules and spirit of membership through deliberations by the general Committee of the MWA. For example, in 1896 GM accused two other members of



offering rebates to customers and guaranteeing prices. The charges were denied and after much deliberation the Committee chose to take no action.<sup>45</sup>

The MWA became increasingly independent of the firms whose representatives sat on its committees. From the beginning the work of the Association was conducted through a series of committees, a general committee which included representatives of all member firms and a series of smaller ad hoc committees. The latter liaised with wool selling brokers in other colonies and related parties such as fellmongers, tanners and sheep skin buyers. In 1895, the MWA held its first Annual General Meeting and issued a report of its activities. From this time forward the constitution of the Association became more formal as the General Committee was supported by two permanent standing sub-committees, one which participated in bi-annual conferences with the representatives from the VWBA and a Trade Committee that dealt with the routine marketing issues. Each member firm nominated three representatives able to attend on its behalf. Consequently, a sizeable contingent of senior staff from the member firms were involved in policy decisions designed to further the interests of the MWA rather than their employers. Moreover, while the constitution did not specify a meeting place from 1892 gatherings were held in locations rented or owned by the MWA, reaffirming the separate status of the organisation. The incorporation of the Melbourne Wool Exchange Pty Ltd as the owner of the city wool auction rooms reinforced this independence in 1912.

### **Management of the MWA and Social Capital Formation**

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 an organisation to act in the interests of its constituents.<sup>46</sup> The minutes of the MWA's deliberations and, after August 1895, those of its Trade Committee permit a closer analysis of such interactions. Two conclusions are clear. MWA's participation rates were extremely high, 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 point to a culture of 'voice' and 'loyalty' within the organisation, rather than of 'exit' or 'passivity'. The 1898 Annual Report explicitly 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>47</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 by any of the member firms. As noted above, there was little evidence of any serious or repeated breaches of agreements. The development of 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 an outsider would have to bear the costs of running its own sales. Moreover, the Association was able to reduce its members' operating costs. 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.<sup>48</sup> Acting through the MWA, stock and station agents also used their collective bargaining power to achieve, for example, a reduction in fire insurance premiums and coastal shipping freight rates.<sup>49</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.

### **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 how wool was to be displayed for inspection by the buyers, 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>50</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.<sup>51</sup> Any protracted delays due to disputes would have had 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 mechanisms 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 many countries, including the USA, France, Belgium and Japan. Therefore, building trust and cooperation between the two groups in the form of synthetic social capital that reinforced and promoted productive personal relationships 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>52</sup> Face-to-face contact between small groups of representatives whose negotiating position was set by their respective Associations provided a process for conflict resolution. The ongoing dialogue between the key participants in the wool market created an understanding of the 'rules of the game' that helped build trust and respect. From their very early days the MWA and VWBA held joint semi-annual 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 with three representatives from each association was established in 1899.<sup>53</sup> 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 promised 'to remove all fear of disagreement in the future as well as to introduce desirable improvements in the conduct of business.'<sup>54</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>55</sup> but these were resolved through a well recognised process of negotiation. Intense diplomacy, punctuated by cricket matches and lubricated with dinners at the Australian Club, maintained 'cordial' relations.<sup>56</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 reduced marketing expenditures. 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. Also on the benefits side, industry-specific knowledge of individuals who were members of the MWA 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 that of any of the constituent firms. For instance, 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.<sup>57</sup>

On the cost side of the ledger, the financial investments that underpinned the MWA, its premises, a secretary, personnel at the auction, and an advertising budget were modest

compared with the balance sheets and cash flows of the participating firms. The principle cost was the time commitment of senior executives from the member firms. However, this cost was minimized by a number of factors. Meetings were held only when ‘considered necessary by the Chairman’<sup>58</sup> until 1896 and then ‘once a fortnight, or at such other times as it shall appoint to consider any business’ thereafter.<sup>59</sup> Member firms could rotate their three representatives across meetings as the need arose. The MWA could function with a quorum of representatives of only three firms so decisions could be taken with some absentees. Geographic propinquity further reduced the amount of time committed to meetings; all of the individuals who needed to attend had offices within walking distance of the meeting place.<sup>60</sup>

Two distinct types of rent generation, based on the previously mentioned work of James Coleman and Ronald Burt, were embedded in the MWA and shared through social capital mechanisms. The first, ‘Coleman rents’, derives from his analysis of the gains from a dense network of strong ties that bind members into a cohesive group.<sup>61</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 prior to the establishment of the central auction room sought to reach inter-firm agreements on charges. Thereafter, the focus switched to 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 individuals representing member firms drew on their industry experience, which they shared to create organisational knowledge within the MWA 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, in turn, fosters a high degree of trust and efficient communication. The formation and evolution of the MWA expanded 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 was the renegotiated pricing structure introduced in July 1896. Previously, the Association bound its members to impose a wide range of charges on sellers. They included a commission fee set at a percentage of the price received for each bale sold with a discount for larger clips, and a volume-based receiving charge which covered the warehousing, weighing, lotting, repacking of sample bales, fire insurance, and advertising costs for wool. From 1896, however, the sundry charges for handling wool were combined into a single and reduced fee of  $\frac{1}{8}$  penny per pound. This shift had a number of beneficial effects. It reduced the transaction costs of computing a range of volume-based charges. It also more closely aligned charges with actual costs by providing lower charges for the larger clips where scale economies in selling existed.

The second form of gains that the MWA fostered, 'Burt rents'<sup>62</sup>, derived from what Ronald Burt described as the benefits of spanning structural holes between networks by exploiting 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—the knowledge, contacts, and shared expectations—created and deployed between networks was a product of the ability of representatives of member firms to span structural holes or gaps in the network. Social capital arose from the MWA having representatives who were positioned to span gaps and connect with

other networks, forming and cementing ties with disparate parties and tapping new knowledge, thereby creating wider pools of resources of strategic value in the market for the MWA.<sup>63</sup>

The membership of the MWA generated both Coleman and Burt rents because it could leverage gains from ‘strong’ ties, from ‘weak’ ties, and from the ‘boundary-spanning’ activities. MWA founders seem to have deliberately shaped the organization to promote networking in multiple directions and on multiple levels, although they would not have used the term then. The constitution required each member firm to nominate three representatives whose diverse roles assured depth and reach into the trade. These representatives were drawn from directors and executives, the general managers of the companies, and second tier men such as the Melbourne manager, the pastoral manager, station inspector or the wool and produce manager.

The general managers and directors of member firms of the MWA 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 multiple distant parties; their social prominence especially allowed them to ‘broker’ connections with prominent persons in other networks. The most important ‘weak tie’ was between the MWA and the networks of the top men in the member firms. The business interests of the directors of the stock and station agents sitting on the MWA extended to other colonies, New Zealand and, particularly through the London boards of Dalgety, NZL&MA and AE into the heart of Anglo-Australasian commerce.<sup>64</sup> Men such as Fiskin<sup>65</sup> and Currie<sup>66</sup> of the AMA were pioneer pastoralists, sheep breeders and wool growers, who brought a lifetime of experiences and contacts into the MWA. They and men such as Sir William Zeal and



James Niall<sup>67</sup> of GM were directors of local banks and insurance companies, mining, distilling, frozen meat works and woollen mills. These men reached out to organisations such as local government and the colonial legislature, the Anglican and Presbyterian churches, the Farmers Club, the National Agricultural Society and Pastoralists' Associations. Like many others who enjoyed commercial success and social standing, they were members of the elite Australian and Melbourne Clubs. Fiskin, for instance, was president of the latter in 1901.<sup>68</sup> In short, representatives with multiple business interests were tied into a number of interconnected and interlocking spheres, within Melbourne, in other Australian colonies, New Zealand 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>69</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's early history 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 collective decision making with each member firm having an equal voice and taking a turn as the chairmanship rotated. Member 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>70</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 experience of social capital building that the formation of the MWA had created among many of the industry players.<sup>71</sup>

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1. Barnard, *Australian Wool Market*; Ville, “Relocation”.

2. Davison, *Marvellous Melbourne*.

3. Serle, *The Golden Age*; ---, *Rush to be Rich*.

4. Putman, “Tuning In, Tuning Out.”

5. 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.’

6. Economic rents are not the same as profits. They are the difference between the income earned by the factors of production, say the people and premises employed by the MWA and what those same factors would earn if used elsewhere.

7. Granovetter, “The Strength of Weak Ties”; Colman “Social Capital”; Walker, Kogut and Shan, “Social Capital, Structural Holes”; Kogut, “Network as Knowledge”.

8. Coleman, “Social Capital”.

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9. Burt, *Structural Holes*; ---, “Contingent Value of Social Capital”; ---, “Structural Holes versus Network Closure”; Granovetter, “The Strength of Weak Ties”.

10. Burt, “Structural Holes versus Network Closure”, 31.

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

12. *Australasian Insurance Banking and Record [AIBR]*, 1892, 418; *Ibid*, 1900, 968; *Ibid*, 1912, 11; Merrett, “Australian Banking.”

13. Nash, *Australasian Joint-Stock Companies*, 1899, 131-33; *Ibid*, 1907, 185.

14. *Ibid*, 1899, 156-7; *Ibid*, 1907, 220-21.

15. *Ibid*, 1899, 104-5; *Ibid*, 1907, 143-4; Bailey, *Pastoral Banking*, 180-84.

16. Nash, *Australasian Joint-Stock Companies*, 1899, 181; *Ibid*, 1907, 144-5.

17. Rees, *Britain’s Commodity Markets*, 326.

18. Rees, *Britain’s Commodity Markets*, 325.

19. Sutherland, *Victoria and Its Metropolis*, Vol. 1, 507.

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

21. 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.

22. The selling season ran from August to March.

23. 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.

24. Chandler, *Scale and Scope*.

25. Laird, *Pull*, 54-5.



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26. Gulati, Nohria and Zaheer, "Strategic Networks".
  27. Bourdieu, "Forms of Capital", 104.
  28. Ville and Merrett, "Investing in Inter-organisational Communication".
  29. de Serville, *Pounds and Pedigrees; --- The Australian Club*.
  30. Serle, *Rush to be Rich*, 47-50.
  31. MWA, Rules and Regulation, June, 1893, clause 1.
  32. MWA, Rules and Regulations, June, 1893, clauses 1-6.
  33. Ville, *Rural Entrepreneurs*, Table 6.2, 126.
  34. Rickard, *Class and Politics*.
  35. 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.
  36. MWA Minutes, 19 Nov.1891.
  37. The National Wool Trading Company and the Victorian Farmers' Loan and Agency Company were members between 1894 and 1897. MWA Minutes, various.
  38. *AIBR*, Sep. 1893, 867-8.
  39. Swan, "Horsfall, John Sutcliffe", 426-7.
  40. Cain, "Pastoral Expansion and Crisis", 196-8.
  41. The consolidated changes appear in MWA Rules and Regulations,1896.
  42. MWA Rules and Regulations, 1896, clause 12.
  44. MWA Rules and Regulations, 1901, clause 21A.
  45. MWA Constitution.
  43. MWA Minutes, 17 Jul.1896.
  46. Putnam, "Tuning In, Tuning Out"; Granovetter "The Strength of Weak Ties"; --- "Economic Action and Social Embeddedness"; Lin, *Social Capital*; Burt, "Contingent

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Value of Social Capital”; ---*Structural Holes*; Coleman, “Social Capital”; Kogut, “The Network as Knowledge”; Walker, Kogut and Shan, “Social Capital, Structural Holes”.

47. MWA Annual Report, 1898.

48. MWA Minutes, 14 Apr.1890; *Ibid*, 27 Aug.1890; *Ibid.*, 13 Oct.1890.

49. MWA Minutes, 24 Aug.1890; *Ibid*, 3 Oct.1890.

50. MWA, Rules and Regulations, Schedule A, various.

51. The amount of wool grown that was sold within Australia rose from 30 per cent in 1881 to more than a half in the decade of the 1890s. Ville, *Rural Entrepreneurs*, Table 6.2, 126.

52. Barnard, *Wool Market*, 110; MWA Minutes, 13 Oct.,1890.

54. MWA Minutes,24 Jan. 1899.

53. MWA Minutes, 15 Mar.1895.

54. *AIBR*, October 1908, 845.

55. *Australian Pastoralists’ Review*, Vol.2 (16 Mar 1892 to 15 Feb 1893), 543; MWA Minutes, 9 Feb.1906; Annual Report, 1913.

56. MWA Minutes, 29 Mar. 1895.

<sup>58</sup> MWA Rules and Regulations, 1896, clause 14.

58. MWA Rules and Regulations, 1893, clause 4.

59. Ville and Merrett, “Investing in inter-organizational communication”, 187.

60. Kogut, “Network as Knowledge”, 414; Coleman, “Social Capital.”

61. Kogut, “Network as Knowledge”, 413; Burt, “Structural Holes”.

62. Burt, *Structural Holes*; --- “Contingent Value of Social Capital”; Kogut, “Network as Knowledge.”

63. For an account of board interlocks between British owned banks, insurance, shipping and stock and station agents see Merrett, *ANZ Bank*, 29.

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64. Hone, "Fisken, Archibald."

65. Hone, "Currie, John Lang."

66. Browne, 'Zeal, Sir William', 605-6; Steven, 'Niall, James', 18-19.

67. Scott, *Melbourne Club*, 103.

68. Cain, "Pastoral Expansion and Crisis", 196; Bailey, *Pastoral Banking*, 123-7 & 142.

69. These included the Central Wool Committee, the Federated Wool Selling Brokers of Australia, and the National Council of Wool Selling Brokers.

70. Le Couter, "Aitken, George Lewis", 24-5; Barnard, "Wool Brokers."