

# Chapter 6

## Competitive Advantage or Limit to Business? – Contingency and Path Dependence

### The Context of the Hanseatic Network Organisation

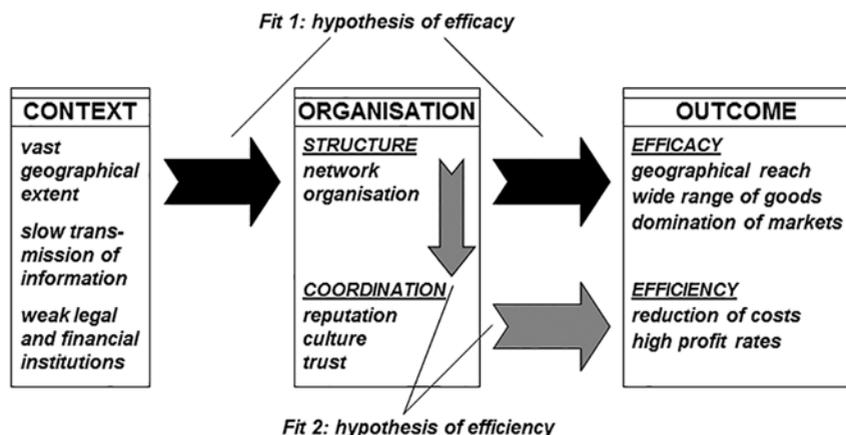
So far, we have shown in the previous chapters that the organisation of Hanseatic trade during the late Middle Ages was in many ways shaped by the principle of network organisation, and we provided arguments as to why this system of trade was instrumental to Hanseatic merchants in operating their commercial activities efficaciously and efficiently, at least from a short-term perspective. However, was this kind of structure also beneficial in the long run in creating a competitive advantage for the merchants, or did it tend to turn into a limit to their business? Or, to put it in a more abstract way, what effects did the Hanse's network organisation produce in general?

To answer this question, two levels of potential impacts of the network organisation have to be distinguished. On the one hand, it is necessary to explain to what extent the form of network enterprise was an economically effective tool at the individual level for Hanseatic merchants in operating their trade. On the other hand, it would also be essential to assess the manifold repercussions this form of trade organisation had on economic development, growth and welfare in Northern Europe. So, both microeconomic as well as macroeconomic features of the Hanse's network organisation shall be examined. Due to a rather poor basis of sources, the latter aspect seems to be far more difficult to analyse than the former. This is also because, unlike individual economic effects, economic development, growth and improvements in welfare cannot be exclusively attributed to the form of network organisation. General economic trends that were independent from the organisation of trade and the changing behaviour of the Hanse's competitors also would have to be considered.

However, under which general conditions was it possible for the Hanse's network organisation to work smoothly as well as successfully? This can be discussed in terms of the contingency theory of organisation. Following this theory, the form of organisation chosen by the Hanseatic merchants

can be explained by looking at some general conditions of their trade. This context, or trade environment, encompasses various features: the Hanseatic merchants saw themselves confronted with a variety of market conditions because the fairly high degree of market development already achieved in the West gradually stopped progressing eastwards.<sup>283</sup> The Hanse's trade also covered an immense geographical area, which is why sending messages along the trading routes took quite a long time. And finally, merchants could only rely on poorly developed legal and financial institutions. As a result, the exchange of commodities between Hanseatic merchants was still done in a rather simple way, without much need for capital, and transactions took quite a long time and they also were highly uncertain. Within the contingency theory of organisation, both the smooth behaviour of the network organisation and its success can be explained as a kind of twin adaptation.<sup>284</sup>

Figure 6.1: Contingency Approach to the Hanse



Schematic of the contingency approach to the Hanse, showing the twin or double fit between structure and context, and between means of coordination and structure. Source: Authors' own drawing.

283 See Chapter 4 in this volume and EWERT / SELZER 2006a.

284 Cf. LAWRENCE / LORSCH 1967/68; KIESER / KUBICEK <sup>3</sup>1992, pp. 59 f. and 410 f.

The first of these two necessary adaptations was that of the structural choice to its environmental conditions, or in other words: the network organisation and its ability to enable simple forms of exchange and loose cooperations suited the aforementioned general conditions of long-distance trade in the North Sea and the Baltic during the late Middle Ages. Hanseatic merchants dealt with these conditions by creating a network organisation for trade in the Hanse's region itself, and by selecting, a more formalised type of organisation for their trading outposts, the *Kontore*. The second adaptation necessary was then the choice of a suitable coordination instrument. Within the network organisation of internal Hanseatic trade, non-hierarchical means such as trust, culture and reputation were chosen, whereas the *Kontore* were to some extent hierarchically organised. It was only thanks to this sort of twin adaptation that Hanseatic merchants were able to trade over long distances both efficaciously and efficiently.

This notwithstanding, there are unfortunately some drawbacks in using this theoretical concept. Even though contingency theory provides a general concept to explain the principle determination of organisational choices, this approach cannot explain variations in the particular choice of organisational forms. Economic agents in general – and this certainly applies to Hanseatic merchants – are not restricted to simply accepting a certain causal mechanism triggered by environmental conditions; they are able, to some extent at least, to influence the design of their trade environment. In this respect, the contingency approach would have to be enhanced with some actor-related institutional economic considerations that might have affected the merchants' rationale. In our view, the example of the medieval Hanse very clearly demonstrates that the economic agents had a fairly high degree of autonomy in their decision-making.

## **Economic Effects of the Hanseatic Network Organisation**

### **Effectiveness and Profitability of Hanseatic Trade**

The network organisation was especially suitable for increasing the individual welfare of Hanseatic merchants, and this choice of structure made it possible to cut transaction and information costs significantly. The information costs of the Hanseatic merchants remained comparatively low, because with their reciprocal and reputation-based trade they could delegate

the gathering of all the relevant information for their commercial activities at the sales markets to their independently acting trading partners. This meant that such information did not need to be transmitted across the long distances within the Hanse's realm.<sup>285</sup> This increased both the flexibility and the speed of transactions, even though environmental conditions at first glance not appeared to have been amenable to a flexible and fast commercial exchange.

As a result of the high degree of autonomy of trading partners it was possible, even under rapidly changing conditions, to react to market developments without the need for the owner of the goods to intervene. Following the principle of reciprocity, commercial exchange could be done without complicated written contractual commitments. This saved enforcement costs, because on legal grounds such commitments would have been virtually unenforceable. Hanseatic merchants were also able to reduce their organisation costs. As shown in previous chapters, they could minimise a wide range of potential contractual risks even though their transactions were only based on implicitly defined informal contracts in most cases.<sup>286</sup> The network structure of the trade system facilitated the finding of trustworthy trading partners when establishing new business contacts. Reciprocal trade itself forced the merchants to act in the interests of the trading partner who had sent them goods, because the reciprocal structure of exchange meant that in the end the profit a merchant made by selling these goods was the profit he could pocket. This idea is clearly expressed in the legal principle by which anyone who dealt with the property of others as carefully as his own was legally unburdened. Thus, it was not necessary to carefully monitor commercial agents, and both sides involved in such reciprocal partnerships could, as owners of deliveries, use the other's goods as a type of security. This institutional arrangement of trade worked because fairness was enforced by a multilateral reputation mechanism, by which any form of merchant defection was threatened with the loss of reputation, and consequently with the complete loss of a merchant's trading partnerships.<sup>287</sup> So, the first economic effect of the Hanse's network organisation to men-

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285 Cf. SELZER / EWERT 2001; EWERT / SELZER 2010.

286 Cf. RIPPERGER 1998, p. 63 f.

287 Cf. EWERT / SELZER 2010.

tion is that such a simple, but very flexible system enabled the Hanseatic merchants to trade in a wide range of goods, and they were able to do so way into the sixteenth century.<sup>288</sup>

It is, however, not only the reduction of individual commercial risks that can be attributed to the network-supported trade on a reciprocal basis. ‘Hard’ economic effects can also be quantified, at least indirectly. Walter STARK<sup>289</sup> has attempted to estimate the profit rates of the maritime trade between Bruges and Novgorod. The empirical basis of his calculations is given by the fairly well-documented trade between the *Veckinchusen* family and the Danzig / Gdańsk merchant *Johann Pyre*. Although profits measured in terms of the turnover of goods were volatile, STARK ended up with an estimate of the average profit rate as 15 per cent. This meant that Hanseatic firms must have been just as profitable as the South German firm of *Runtinger* in Regensburg, for example.<sup>290</sup> In the 1570s, *Wolter von Holsten* made even greater profits than that, due to an exceptional boom in the trade with Russia.<sup>291</sup> It seems as if in Southern Germany it was not possible to make higher profits than this from traditional trade in the long run. Only through speculative deals involving much higher information costs, and through risky loans to princes, merchants were able to increase their profit rate significantly.<sup>292</sup> Thus, with network organisation Hanseatic merchants appeared to have found the economically ideal answer to all the restrictions of their long-distance trade, which generally made their simple and less capital-intensive business lengthy and extremely uncertain.<sup>293</sup>

## Economic Growth and Collective Welfare

It goes without saying that economists would certainly expect the growth effects of the Hanse’s network organisation to be quantified. Here, the medieval historian definitely comes up against the limits of the available source material. Economic growth and increasing welfare can nevertheless

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288 Cf. EWERT / SELZER 2006b.

289 Cf. STARK 1985; 2002.

290 Cf. EIKENBERG 1976.

291 Cf. PELUS 1981.

292 Cf. VON STROMER 1970.

293 Cf. EWERT / SELZER 2010.

be derived from various indicators in qualitative terms. The most visible indicators are population growth, the increase in population density and the urbanisation of the areas covered by the eastbound European colonisation between the river Elbe and the Baltic, and in Scandinavia too. During the twelfth and thirteenth centuries, a dense network of villages and towns evolved in what were formerly only sparsely populated areas. In these newly settled areas, prior to the sharp cut that happened in the first half of the fourteenth century, the population appears to have sporadically doubled every 25 years.<sup>294</sup> Some of these newly founded settlements experienced kind of an economic ‘take-off’ within just a few years, a take-off that was not repeated until the nineteenth century period of industrialisation, as is exemplified by Lübeck in the first half of the thirteenth century.<sup>295</sup> The most visible sign of the pre-1350 long-term economic boom (which in the short term was potentially a very changeable one in terms of the urban property market<sup>296</sup>) was produced by the leading medieval segment of the building industry. The ‘petrification’ of the newly established towns, dominated by the typical red brick structures, became the very sign of communal wealth in the North of Europe.<sup>297</sup> As residents of these towns, the Hanseatic merchants did not just profit from this economic boom; in part they were also the creators of an increasing collective welfare, inasmuch as their trade system played a major role in promoting economic development and growth.

### **Distribution of Income and Wealth in the Hanse towns**

The rather slim organisational structure of Hanseatic enterprises and the low level of costs resulting from this organisational design made it especially easy for newcomers to start trade with only little capital at hand. The fact that a large number of small merchant enterprises existed in the Hanse must have certainly had an impact on the distribution of wealth in the Hanse towns. Theoretically, one would assume that the choice of network organisation would result in a specific, presumably relatively

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294 Cf. BORGOLTE 2002, p. 236.

295 Cf. RANFT 1995.

296 Cf. HAMMEL-KIESOW 1988.

297 Cf. THALHEIM (ed.) 2002.

smooth distribution of wealth within the region of trade.<sup>298</sup> This theoretical assumption coincides with the results of the research on inequality and the distribution of wealth in Hanse towns, which was done by Ahasver von BRANDT.<sup>299</sup> Using a tax list from 1460, he discovered that Lübeck had a much more balanced distribution of wealth than Augsburg (in 1475). This result was not only found for the town population as a whole, but in particular for its upper class. Despite all the difficulties that typically arise in such isolated analyses of the social structure of medieval towns<sup>300</sup>, the main feature to be stressed appears to be fairly valid. Late medieval Lübeck had a larger and more broadly supported upper class than Augsburg, while Augsburg at that time showed more inequality, and income and wealth concentrated on a much smaller group of people. More recent research into the social stratification of the towns of Greifswald, Rostock and Stralsund tends to confirm Ahasver von BRANDT's estimates rather than contradicting them.<sup>301</sup>

## The Scope of Hanseatic Trade

In the case of Lübeck, undoubtedly the most important trading centre in the Baltic region, it is only possible to obtain a sketchy impression of the scope of Hanseatic trade from customs invoices. A few of these invoices survived in the archives. In 1368 over 1,800 ships entered or left the port of Lübeck. More than a century later, in the period 1492–96, the figures show only 760 arrivals and departures of commercial ships, although the average size of ships had increased in the meantime, of course.<sup>302</sup> However, to give a more reliable picture these figures would have to be compared to trends elsewhere in Europe. Peter SPUFFORD attempted to show that, compared with the sales conditions in Lübeck in the fourteenth century the turnover in the port of Genoa must have been five to six times greater than that.<sup>303</sup> It goes without saying that it would certainly not be incorrect to conclude

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298 Cf. GREIF 2000, p. 278.

299 Cf. von BRANDT 1979.

300 Cf. MEINHART / RANFT (eds.) 2005.

301 Cf. ISEL 2005.

302 Cf. HAMMEL-KIESOW 1993.

303 Cf. SPUFFORD 2004, p. 281 f.

that the volume of late medieval Hanseatic trade was much smaller than the trade volumes that were exchanged in the Mediterranean by that time, or those in sixteenth century Antwerp.<sup>304</sup>

The wealth of merchants and economic growth in the areas of Hanseatic trade thus also had its downside, because the lean structure and smaller size of the Hanseatic enterprises was surely related to the scope of Hanseatic trade. While the network organisation and reciprocal trade increased their capability to deliver a wide range of products everywhere in the North Sea and Baltic regions<sup>305</sup>, it was not possible for individual traders to handle large amounts of a particular commodity. So in the end, the network structure did not really produce ‘economies of scale’.

## The Development of the Hanse’s Network Organisation and Path Dependence

Although the effects of the Hanseatic network organisation for the merchants themselves as well as for welfare and growth in the North Sea and Baltic regions in the Middle Ages are obvious, at least in qualitative terms, it must not be forgotten that the story of the success of this organisation is ultimately a story of its long decline. The formal organisation of the Hanseatic League continued to exist until 1669, and some merchant enterprises still remained successful in the sixteenth century. Also, several Hanse towns, such as Hamburg and Danzig / Gdańsk, first experienced great economic prosperity as early as in early modern times. Yet, this picture of a partially continuing economic success cannot hide the fact that the trade monopoly held by Hanseatic merchants in the Baltic region already began to erode during the fifteenth century, and that by the sixteenth century the Hanse had almost lost all of its political and economic importance. And unlike their upper German, English, Dutch and Italian competitors, the Hanseatic merchants had failed to get a foothold in the new transatlantic trade. At the end of the fifteenth century the commercial advantages Hanseatic merchants possessed in the Baltic were rapidly ceasing. Hence, had the Hanse’s network organisation, even though it had once enabled highly

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304 Cf. SPUFFORD 2004, p. 282 f.

305 Cf. SELZER / EWERT 2001, p. 158.

profitable trade, now turned into a serious limitation to their business, a barrier that increasingly began to spoil any further development of Hanseatic commerce? And, was this institutional arrangement of trade, as a consequence, not only responsible for the obvious rapid economic growth before 1400, but did it also block a continuing expansion of Hanseatic trade, and therefore inhibited further economic development, growth and welfare in Northern Europe after 1400?

The reasons for the decline of the Hanse at the transition from the late Middle Ages to the early modern period are either generally sought at a political level or this decline is explained by exogenous economic factors only. These determinants primarily include the loss of importance of the commercial centre of Bruges in the late fifteenth century and, as a result of the discovery of the American continent and the opening of the sea route to India, a shift of the European trade routes towards the Atlantic. Such explanatory concepts require a further improvement. It is very likely that some of the factors that determined the decline of the Hanse and the Hanseatic League in the long term were inherent to the structure and to the restructuring of the network organisation, and can thus be interpreted as so-called path dependencies. The concept of path dependency combines the classic straightforward economic explanation, which assumes foresight and the actors' unrestricted ability and autonomy in decision-making, with a historical and process-oriented interpretation.<sup>306</sup> This kind of an explanatory concept is very well suited to showing the manifold growth-inhibiting effects of the Hanse's network organisation.

Any organisation can be inefficient for various reasons. Inefficiency can occur, for example, because the organisation's structure and its form of coordination create natural limits to growth, because the smooth functioning of the organisation causes all kinds of change to appear superfluous, or because with a change in either the structure or the coordination mechanism the necessary fit of structure and means of coordination disappear. It may also be that the context of the organisation changes over time, or that the context is deliberately changed by the members of the organisation themselves. Even if such an attempt aims to increase both the effectiveness and

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306 Cf. ARTHUR 1989; DAVID 1994; PUFFERT 2006.

the efficiency of the organisation, it might nevertheless result in inefficiency. Therefore, we hypothesise that with the intention of further developing their system of trade, and of protecting themselves against an increasing competition, the Hanseatic merchants repeatedly made decisions by which they unintentionally forced their network organisation into irreversible structural changes. This then led to a so-called 'lock-in' of the institutional arrangement, a development path that could not easily be left again after a certain point in time, with the result that Hanseatic trade was no longer efficient. This failure of the institutional arrangement of trade as a whole was path-dependent<sup>307</sup> insofar as precisely those strategies that had been employed by the Hansards successfully at earlier stages in the history of the Hanse then turned into a severe hindrance to further sustained growth of their trade system.<sup>308</sup>

When applying the approach of path dependency to the Hanse case, it is very sensible to distinguish different periods in its history between the thirteenth and the sixteenth century, and to ask to what extent the organisational choices that were made by the Hansards shaped the development of the network organisation. In the literature on the Hanse to date, three main phases of development are distinguished, each of which are connected to a certain historical event, namely: the rise of the Hanse in the late twelfth to the early fourteenth centuries beginning with the second foundation of Lübeck by Henry the Lion in 1158/9, the Hanse's climax in 1370 ('Peace of Stralsund') and its decline after 1474. We attempt to use an economic history perspective to test whether this political split of the Hanse into several development phases still holds (or not) when the parallel development of the trade organisation over time is analysed.

## Network Size, Cultural Borders and the Network Paradox

Various structural elements of the Hanseatic network organisation can be identified, which inherently created natural boundaries for the growth of the organisation on a long term basis. Thus the decision to have a network

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307 See on the theoretical concept of path dependency, a paradigm which is discussed in economic theory for some time already, for instance ARTHUR 1989; DAVID 1994; PUFFERT 2006; SYDOW / SCHREYÖGG / KOCH 2009.

308 Cf. SELZER / EWERT 2005; EWERT / SELZER 2007.

organisation typically caused a path dependence, and as a consequence this also could imply a growth-inhibiting effect, at least in the very long run.

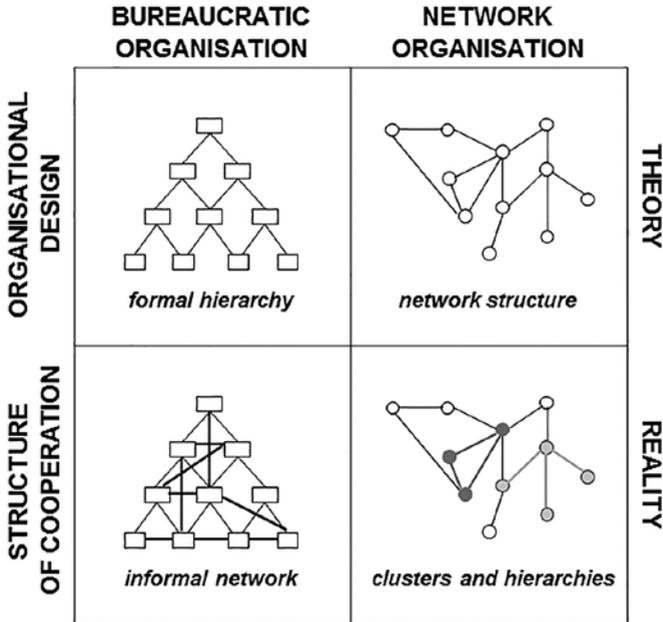
The founding conditions of the Hanseatic merchants' long-distance trade network were shaped, as we saw previously, by the eastward migration of families from the Rhineland, from Westphalia and from Lower Saxony in the twelfth and thirteenth centuries, a migration that was part of the general eastbound European colonisation at that time. The foundation of branch towns in the Baltic region created kinship ties between the trade centres, which were then preserved for generations. However, a significant difference between the Hanseatic network organisation and modern network organisations was that the emergence of a specific organisational pattern, at least in the beginning, was not really the result of conscious effort, but evolved from the geographical and demographical conditions of the time. In the beginning, networking proved to be almost the only viable strategy to establish commercial exchange between the developed regions in the West and the still undeveloped regions in the East, a fact that was tested within a simulation model of early Hanseatic trade.<sup>309</sup> There is some evidence however, that over time the so-called 'network paradox' appeared in the case of the Hanseatic merchants' network organisation. The network paradox describes the divergence of the organisational design on the one hand, and the actual pattern in which the members of an organisation cooperate with each other on the other.<sup>310</sup> A typical development that can be observed in connection with network organisations is the emergence of a rather fixed, sometimes almost hierarchical structural pattern. What was originally thought of as a loosely structured and non-hierarchical organisation becomes petrified as a result of the repeated clustered interaction of network members. This transformation of a network organisation is clear when compared to possible developments within bureaucratic organisations.

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309 Cf. EWERT / SUNDER 2012.

310 Cf. ADERHOLD / MEYER 2003, p. 154.

Figure 6.2: The Network Paradox



Cross-classification of the type of organisation and intended vs. actual structure of cooperation inside the organisation. Graph developed following ADERHOLD / MEYER 2003.

Source: Authors' own drawing.

Bureaucratic organisations are based by design on formal hierarchies, but in reality social networks matter very much indeed, as they often allow a much quicker and more efficient way to deal with tasks. Likewise, the organisational design and the actual pattern of cooperation within the organisation can differ tremendously in a network organisation. Although implemented with the intention of enabling loose and flexible cooperation in the best interests of all members, a network organisation can easily turn into a fragmentary group of clusters with a quasi-petrified, formal and even hierarchical structure (see Figure 6.2).<sup>311</sup>

311 Cf. ADERHOLD / MEYER 2003.

In the long term, the concentration of trade partnerships to relatives over several generations, the reliance on kinship networks, the emergence of separate subgroups within the network organisation thus led, step by step, to a petrification of the network, a result that fundamentally contradicted the flexibility of this organisational choice. Kinship bonds and social proximity created areas within the Hanse's network organisation where power was distributed asymmetrically. Hence, the Hanseatic habit of predominantly cooperating with family members and friends, which produced, as we have repeatedly shown in previous chapters, significant economic benefits for merchants, nevertheless threatened the generally flexible and variable character of the commercial network.

In addition, the question concerning the exact meaning of reputation and trust as cooperation-enhancing mechanisms arises, as commonly network members' activities only could be coordinated when both trust and reputation already existed. The process of building up trust and reputation took time, of course, and once trust and reputation had been built up, in most circumstances it would have been a non-efficient decision for merchants not to capitalise these means. Nevertheless, using reputation for commercial purposes and only relying on trustworthy partners definitely increased the likelihood of sticking with virtually the same set of trading partners. In turn this meant that the whole commercial network became fragmentary. And in fact, despite trading goods with quite a number of commercial partners, Hanseatic merchants nonetheless usually held on to these already established core partnerships for quite a long time. Moreover, this development of structure then made expansion more difficult, or even impossible. In the case of the Hanse and the Hanseatic merchants, this transformation was even further accelerated, because the multilateral reputation mechanism in reciprocal trade favoured the merchants' orientation towards relatives and partnerships based on kinship bonds, and thus fostered a tendency for the established cluster of persons to close ranks against outsiders.

Finally, for exactly the same reason the concept of 'cooptition' has to be taken very cautiously, even though Hanseatic merchants, in contrast to their contemporaries from Upper Germany, never really forbade cross-

competition inside their networks.<sup>312</sup> Hence, ‘cooptition’ might be a brilliant idea in theory, but in the long run it seems to have been a rather poor concept in practice for the late medieval Hanseatic merchants.

A second growth-limiting element inherent to the network organisation is its cultural boundary.<sup>313</sup> It is a well-established fact of sociological research and network studies, that networks that are based on cultural bonds are hardly able to incorporate members who lack these commonly accepted values, and that such networks cannot be expanded beyond a certain group size without attracting free-riders in greater numbers due to a resulting malfunction of the underlying multilateral reputation mechanism. The organisation therefore cannot grow because cultural identity creates a natural border. A mutual cultural orientation of the network members can only have a coordinating effect if the network is limited to members with the same cultural background. The multilateral reputation mechanism that is an effective and efficient means of coordination in network organisations prevents the crossing of such cultural borders, but above all it loses its effectiveness as the network expands. A greater anonymity of network members and participants of the network significantly reduces the probability of being caught in the case of fraud, just as it becomes less likely with an increasing number of persons that cases of fraud become public.

These very general empirical results regarding networks do apply to the Hanse and its merchants, and they are confirmed by various trends in the development of the Hanse’s network organisation of trade. It has been shown previously that the Hanse was in a sense a ‘small world’ – but only for Hansards. To strangers, however, the Hanse must have appeared as a closed society, almost impossible to reach. And in fact, it really was. The negative impact of such self-containment is quite typical for networks based on cultural identity and kinship bonds. The Florentine banker *Gherardo Bueri* proved to be one of the rare exceptions to this rule, because he managed to settle in the city of Lübeck and establish his business there. However, it was only after he had married into a rich local family that he could also join a Hanseatic network.<sup>314</sup>

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312 Cf. SPRANDEL 1984.

313 Cf. GREIF 2000, p. 275 f.

314 Cf. FOUQUET 1998.

A cultural border was already created by the first trade privileges that were awarded to Hanseatic merchants, inasmuch as the initially distinct groups of Lower German merchants who had cooperated in order to gain these privileges had one thing in common – the Low German language.<sup>315</sup> Ideally, their only contact with other foreign traders was at the markets where the goods entered the Hanseatic trade system, or where goods from North and East Europe left the system again. Moreover, there was a distinct lack of trade fairs in the Hanseatic region.<sup>316</sup> Cooperation with non-Hanseatic merchants, the so-called *Butenhansen*, became increasingly and also formally forbidden.<sup>317</sup> In addition, Hanseatic merchants tended to avoid commercial activities in Southern Germany. They frequented of course the Francfort trade fairs, but there was no real Hanseatic trade as such south of the river Main.<sup>318</sup>

This cultural barrier as a kind of informal network boundary was less problematic for economic growth in the Hanseatic region as long as the European trade regions still largely existed alongside one another. In the early stages of the Hanse, trade was restricted to Hanseatic merchants, and it was possible to massively expand the network organisation by founding branch towns in the Baltic and through the easternbound migration of merchants. As a result, by the fourteenth century the Hanse's network organisation became a clearly defined entity. However, with the emergence of an overall European, and soon to be transatlantic economic area after 1450, the Hansards could not explore the new market opportunities that emerged outside of the Hanseatic region. They were not able to gain a foothold in these new markets to the same extent that their competitors were able to penetrate the Hanse's economic realm at the same time.<sup>319</sup> Particularly symptomatic in this respect is the collapse of the Venetian trading company of the Hanseatic *Veckinchusen* family. What is striking is that this company, which was especially created for the Italian trade, had different legal and organisational structures than those the same merchants commonly

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315 Cf. HAMMEL-KIESOW 2000, S. 61.

316 Cf. IRSIGLER 2002.

317 Cf. SPRANDEL 1984, S. 32 f.

318 Cf. SCHNEIDMÜLLER 1991.

319 Cf. SPRANDEL 1984; JENKS 2005.

practised within the Hanse's network trade. This enterprise nevertheless failed due to a lack of knowledge about the personal relationships that were necessary in the Venice trade and that proved to be completely different to the well-known personal bonds within the Hanseatic commercial setting the *Veckinchusen* family was used to.<sup>320</sup> And, since Hanseatic merchants very strictly held on to the trade privileges of the Hanse in London, Bruges, Bergen and Novgorod, and since the multilateral reputation mechanism only worked to perfection in smaller or medium-size networks, it was quite difficult for them to expand beyond the borders of their settled network-based system of trade that had been working for so many generations with such great success.

### **Adaptations Missed Because of the Success of the Network Organisation**

The long-distance trade of the Hanse was successful because of the merchants' privileges in the markets at the outposts of the Hanse, and because the form of cooperation of reciprocal trade within the network organisation had apparently worked smoothly for such a long time. The position of the Hanse in Bruges was unrivalled among the merchants from other European trader nations.<sup>321</sup> This traditionally superior position, however, resulted in the Hanse's strategy to maintain its relationship to the Bruges stockyard longer than other nations, and as a consequence, this made it difficult for Hanseatic merchants to use the markets of Antwerp and Bergen-op-Zoom, which were already becoming more important by the end of the fifteenth century. It was only in 1564–68 that the Hansards finally abandoned Bruges and built a new *Kontor* in Antwerp, a much belated attempt to catch up with an economic shift that by this time had in fact been accomplished decades before.<sup>322</sup> The 'network memory'<sup>323</sup>, which saw Hanseatic trade automatically connected to the market of Bruges, thus led to a delay of the necessary restructuring. This in turn facilitated Southern German merchants

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320 Cf. STIEDA 1894; KLUGE 2013.

321 Cf. VERMEERSCH 1992.

322 Cf. FRIEDLAND 1963.

323 Cf. WINDELER 2001.

to penetrate Northwestern Europe, merchants who were far more active than the Hanseatic merchants in sixteenth century Antwerp.<sup>324</sup>

A second field, where ongoing success inhibited structural change, is banking and financial institutions. The Hanseatic merchants' trade network was well-adapted to the lack of cash in the Hanseatic region.<sup>325</sup> Risk capital was virtually unnecessary in a long-distance trade of this dimension. In addition, the risk capital that firms from Upper Germany obtained from investors in the form of deposits from princes, noblemen and the church, was not available to the urban upper and middle classes in the Hanseatic area, certainly a spin-off of a relatively balanced distribution of income in the Hanse towns. Initially, there was an old contract form known as the *wedderleginge* or *vera societas*<sup>326</sup>, which enabled the pooling of free capital by various merchants for a mutual trading venture. This form of cooperation however, was no longer of great importance in the late medieval period, which also points to fact that there was no capital market worth mentioning in the Hanse's realm. Around 1500, when the Hanseatic merchants were confronted with the appearance of effective capital markets – first in Antwerp and later in the sixteenth century in Amsterdam – this lack of risk capital inside the Hanse and the Hanse's only poorly developed banking system then turned into a commercial disadvantage, because Hansards were now faced with competitor enterprises, which were substantially better capitalised, and which also had easy access to risk capital.<sup>327</sup>

Likewise, within a system of long-distance trade that operated with little capital and also vehemently attempted to protect itself against competition, there was virtually no need for radical developments of trading techniques, such as the introduction of an efficient accounting system. Nor should it be forgotten that even in the fifteenth century, the simple Hanseatic system of trade was flexible enough to integrate regions which still differed a lot in their economic development. The network organisation enabled Hanseatic merchants to be equally active in the poorly developed market

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324 Cf. HARRELD 2000.

325 Cf. SPRANDEL 1975.

326 Cf. CORDES 1998; 2000.

327 Cf. SCHONEWILLE 1998.

of Novgorod<sup>328</sup>, where they had to be present in person to trade with the Russian suppliers of furs, skins and wax, and the already highly developed medieval ‘world market’ of Bruges<sup>329</sup>, where cashless payment had been common for a long time. However, since the reciprocal trade preferred by Hanseatic merchants preserved a smaller volume of trade and less capital resources in general, the competitiveness of the Hanseatic merchants suffered significantly during the transatlantic expansion of European trade that was a matter of fact in the early sixteenth century.

### The Multiplicity of Structure, and a Mismatch of Structure and Coordination

Besides the fact that Hanseatic businesses were quite small in size and thus had to adapt themselves to a given heterogeneous context, the Hanse’s commercial exchange was embedded in several overlapping organisational layers – traders’ networks, the *Kontore*, Hanse towns and the Hanseatic League. A higher degree of formalisation of the cooperative structure of the Hansards can be detected from the middle of the fourteenth century onwards with the formal emergence of the Hanseatic League. This structural change was formerly understood as a transition from the ‘Hanse of merchants’ to the ‘Hanse of towns’<sup>330</sup>, and it can be derived from a rationalisation, institutionalisation and recording of the decision-making procedures.

This notwithstanding, the likelihood of potential conflicts between the individual interests of merchants and the collective interests of town communities and of the *Kontore* presumably increased even more after the formation of the Hanseatic League. As the institution that enforced privileges, the *Kontore* were not controlled by any central instance; quite the reverse, in fact. The *Kontore* often developed their own trade policies, which then counteracted the objectives of Hanseatic merchants who not traded at the *Kontore* as well as the policies of Hanse towns. In addition to the *Kontore* in London, Bruges, Bergen and Novgorod, the Hanseatic League itself thoroughly developed its own economic and political scopes and vigorously at-

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328 Cf. ANGERMANN / FRIEDLAND (eds.) 2002.

329 Cf. VERMEERSCH 1992; MURRAY 2000; STABEL 2001; GREVE 2000; 2001.

330 Cf. WERNICKE 1983; HENN 1984.

tempted to get these interests accepted, not only by foreign traders, but also by the Hanseatic merchants themselves.<sup>331</sup> Originally designed to coordinate the merchants' interests, to oversee trade and to provide the enforcement of privileges and trade regulations, it was this multiplicity of structure itself that put a further constraint on the activities of Hanseatic merchants.<sup>332</sup> The most important Hansards acted as town representatives at the diets of the Hanseatic League. These regular meetings of envoys from the Hanse towns are often misunderstood as a sort of 'Hanse parliament'. However, the group of representatives at these conventions typically claimed that they were acting in the interests of the society of German merchants<sup>333</sup>, but the coercive measures available to them usually proved to be much too weak to enforce and to maintain any of the agreed resolutions. Often, massive conflicts with the *Kontore* arose, typically concerning the measures to be employed to promote Hanseatic trade in a particular place.<sup>334</sup> The emergence of the Hanseatic League as a formal political entity furthermore points to the problems of collective action and the notorious instability of cartels as has shown previously in Chapter 5 of this volume. It was foreseeable, that a powerful member of this cartel, namely Lübeck, had to take over to prevent its dissolution.<sup>335</sup>

As the *Kontore* in Bruges, London, Bergen and Novgorod, particular Hanse towns and the Hanseatic League often did not have the same economic and political scopes, merchants became increasingly trapped by the negative effects of this multiplicity of structure. This of course could create situations in which single merchants came into conflict with higher order economic interests, for instance when they were confronted with the Hanse's typical ban on the formation of business partnerships with non-Hanseatic traders.<sup>336</sup> This seems to have been the case during embargoes. During the Hanse's blockade of Flanders lasting from 1358 to 1360 for

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331 Cf. SPRANDEL 1984, p. 31 f.

332 Cf. von BRANDT 1963.

333 Cf. PITZ 2001.

334 Cf. HENN 2001.

335 See for a description of this economic phenomenon in a medieval setting VOLCKART 2004a; 2004c.

336 Cf. SPRANDEL 1984, p. 32 f.

instance, the traders of the town of Kampen tried to profit from the circumstances by neglecting to respect the prohibition of trade.<sup>337</sup>

All in all, this development can be seen as the typical kind of confrontation that evolves when attempts are made to coordinate a network organisation in a hierarchical manner. In the terminology of contingency theory, one could say that as soon as the more or less regular diets of the Hanse started to be effective, there was no longer a match in the structure and coordination of the Hanse's network organisation. As a consequence, inefficiency within the network organisation was inevitable. Such a negative consequence could arise, as in the case of Breslau / Wrocław in 1474, if a town voluntarily renounced its membership of the Hanse<sup>338</sup>, also causing a rupture in the network at merchant level. Following the town's departure all merchants from Breslau / Wrocław were officially excluded from the use of the Hanse's trade privileges, a fact which tore apart numerous personal bonds between Breslau / Wrocław merchants and merchants from other Hanse towns.

The acceptance of responsibility for the cooperative structure of the Hanse by the town councils from which the members came also provoked conflicts of interests within towns, which is vividly expressed in the form of the many urban riots that can be observed in Hanse towns from the last third of the fourteenth century onwards.<sup>339</sup> In most cases, neither all of the citizens, nor all of the merchants of a particular Hanse town were equally interested in the use of the Hanse's trade privileges. The distribution of load between the members of the cooperative as the beneficiaries of trade privileges became even more complicated by the involvement of the towns insofar as these had very different interests in the privileges at the different trading centres. This becomes clear when looking at the commercial interests of those groups that were involved in the Lübeck riots at the beginning of the fifteenth century. It was only the 'Old Council', which traditionally consisted of merchants, that explicitly argued with Hanseatic interests, and not the opposition party, which was also supported by a

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337 Cf. FRICCIUS 1932/33.

338 Cf. HAMMEL-KIESOW 2000, p. 111 f.

339 Cf. EHBRECHT 1976.

group of merchants.<sup>340</sup> In such conflicts the diets of the Hanseatic League commonly took the side of the established council members, who in turn also supported the interests of the Hanse, and vigorously expelled towns from the Hanseatic League after a violent change of the town council. As a consequence of such a *Verhansung* ('an exclusion from the Hanse') the Hanseatic network organisation of trade was partially damaged, because expulsion also always meant a rupture of valuable personal bonds.

## The Change of Economic Conditions

Changes, either exogenous or endogenous, in the commercial environment to which the Hanse's network organisation of trade had originally been so well adapted, obviously put this trading system under severe pressure towards the end of the fifteenth century. Firstly, the merchants' potential to remain flexible at the cost of an under-developed capital market structure within the inner reach of the Hanseatic system of trade meant that Hanseatic merchants, unlike their non-Hanseatic competitors, had almost no access to risk capital, which would have been urgently needed for much bigger commercial endeavours than those that had been typically undertaken within the internal Hanseatic trade.<sup>341</sup> Secondly, the Hanse's policy to block opponents on the grounds of the privileges and liberties its merchants enjoyed in Bruges prevented both of them from realising early enough that the economic importance of the Bruges market was rapidly declining as the Antwerp market expanded during the second half of the fifteenth century. And finally, harmonisation of the conditions of internal Hanseatic trade reduced transaction costs inside the Baltic for Hanseatic merchants, vastly facilitating their trading operations. By a standardisation of weights and measures, the introduction of quality control for goods, the increase in legal security for shipping goods abroad and the attempt made at introducing a main currency by establishing a regional minting association the Hansards were able to gradually harmonise the economic regions of Northern Europe, and thus reduce the transaction costs of trade.<sup>342</sup> This

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340 Cf. BARTH 1974.

341 Cf. SCHONEWILLE 1998.

342 Cf. JENKS 2005.

much is true. Yet, the externalities of such harmonising attempts lowered transaction costs for non-Hanseatic merchants as well. As a result, by the end of the fifteenth century the commercial competitors of the Hanse were then more and more able to enter the Hanseatic system of trade, and this posed a serious threat to the privileged commercial position Hanseatic merchants had so far enjoyed in the Baltic.

However, a serious point of criticism using contingency theory with regard to the causal impact of the organisational context on the organisation itself is that this kind of explanation sticks to a far too mechanistic perception of the world.<sup>343</sup> In this view, organisations, or their members, are thought of as actors, who are only capable of reacting to a changing environment. It unquestionably makes sense in the short term, for example because of transaction cost economics considerations, to choose a structure to suit the context, but in the long term the context itself can, in turn, be altered by the members, to a certain extent at least. Therefore organisations and their members do not always have to passively accept a given environment for their activities, and in the long run their ability to act is not solely limited to designing the organisational structure in a reactive manner and to selecting the appropriate coordination mechanism. In the strict sense of the concept, the further development of the organisation is considered path-dependent only if such adaption and a restructuring of the organisation would be, for whatever reason, impossible.

There is another form of organisational path dependence, however, which is characterised by initially unintended externalities that are produced by a proactive behaviour of organisation members. Such a proactive behaviour appears to have happened with regard to the Hanse's network organisation of trade. In what were originally very heterogeneous economic zones of trade and a commercial world with poorly developed institutions, networking proved to be an optimal strategy for Hansards to operate their trade. Using the pattern of reciprocal trade, in combination with the coordinating effect of the merchants' reputation, was initially an ideal choice of structure for the emerging institutional arrangement of trade. With the establishment of the Hanseatic League by the middle of the fourteenth century at the

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343 Cf. CHILD 1972; KIESER / KUBICEK <sup>3</sup>1992.

latest, the Hanse and Hanseatic merchants tried to alter these basic conditions for their trade in such a manner that the network organisation was no longer suitable as an alternative means of organisation, simply because it no longer fitted the context. It was at this point that path dependence came back into the picture, because all of the restructuring and harmonising attempts had unintended, but nevertheless serious consequences for the competitiveness of Hanseatic merchants. What sought to improve the market position of Hanseatic merchants finally turned against them. Even though these measures actually reduced transaction costs for Hanseatic merchants, transaction costs for all of their potential competitors were equally reduced. For potential competitors it now became easier to operate in the core areas of the Hanse, because they could no longer be effectively excluded from making use of these newly established public goods.<sup>344</sup> There was also a general reduction of transaction costs at the *Kontore*, which in turn diminished the commercial value of the trade privileges enjoyed by the Hanse and its merchants. As a consequence, the commercial advantages of Hanseatic merchants began to slowly fade away. Under these circumstances potential competitors of the Hanseatic merchants were now able to achieve higher ‘economies of scope and scale’ with their more efficient forms of organisation than those of the Hanseatic merchants, and this was one of the reasons for the Hanseatic merchants’ loss of ground in international trade around 1500 and the beginning of the Hanse’s long decline.

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344 Cf. SEIFERT 1997.

