Enhancing industry association theory: a comparative business history contribution

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Keywords
enhancing, business, theory, contribution, history, comparative, industry, association

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ABSTRACT

Our comparative business historical examination of industry associations aims to enrich the under-theorized study of this distinctive type of meta-organization. We compare two New Zealand industry associations operating in the same supply chain but with differing degrees of associative capacity and types of external architecture. Our analysis of these associations builds on two strands of theory that rarely communicate with each other: new institutional economics (NIE) and organizational-institutional theory (OIT). We demonstrate how NIE describes the structural potentialities for associational strength, while OIT addresses the relational context within associations. In turn, NIE’s examination of external influences reinforces OIT suggestions that associations which are rich in social capital can become developmental in orientation. Our historical analysis supplies fresh theoretical insights into industry associations, thereby addressing conceptual issues of interest to management scholars who study bridging-type organizations. On this basis, we argue that business history and organization studies complement each other.

Keywords: business history, industry associations, meta-organizations, organization theory
INTRODUCTION

It is time to move industry associations towards the forefront of research within organization studies. They fit newly derived organizational categories that seek to encapsulate large scale member-driven organizations, and display the hallmark features of Ahrne and Brunsson’s (2008) ‘meta-organizations’ – organizations whose constituent members are other organizations. To date, however, industry associations have received scant attention from organizational researchers, even when they employ germane categories. The ‘bridging organization’ is a case in point: although this concept provides a useful shorthand description of the purpose and activities of industry associations, theorists in this field have focused their attention elsewhere (Brown, 1991; Lawrence and Hardy, 1999). Our article seeks to rectify this neglect by using a comparative business history approach to identify the circumstances under which associations serve as effective devices for inter-firm coordination and industry development. We contribute to the management literature an enhanced theoretical explanation of industry association effectiveness, but one that is grounded in fine-grained historical analysis of the structure and activities of two associations: the New Zealand Wool Brokers Association (NZWBA) and the New Zealand Port Employers Association (NZPEA).

These associations share many similarities as service providers in the same national supply chain. Their primary historical records, however, reveal that the NZWBA was a successful vehicle for cooperation among its members, and for industry development, whereas the NZPEA was unsuccessful. The divergent experiences of two similar associations provide the opportunity to address why some industry associations succeed as coordination and industry developmental
mechanisms, while others fail at that task. A comprehensive explanation is not available in the wider literature of industry associations, in large part due to theoretical fragmentation. We seek to overcome this fragmentation by combining two broad theoretical perspectives on industry associations: the New Institutional Economics (NIE) and an eclectic perspective with roots in sociology and politics, which we describe as Organizational-Institutional Theory (OIT). There have been few attempts to integrate the insights of these perspectives for understanding industry associations and the role they play in coordinating the activities of competing firms and developing whole industries.

Proceeding from this theoretical foundation, our article illustrates how business history and organization studies complement each other, first by providing deeper understanding of a distinctive type of meta-organization, and second in methodological terms. Unlike much management research, which seeks to clarify causal relationships on the basis of abstractions from cross-sectional data, we use comparative and counterfactual analysis to identify the necessary and sufficient conditions for industry association success. Comparisons and counterfactual reasoning are mainstays of the historian’s methodological repertoire (Mahoney and Rueschemeyer, 2003; Weinryb, 2009). While the comparative method has a lengthy history within organization studies (Etzioni, 1961), we show how combining this method with robust counterfactual reasoning provides a powerful way of using historical data for the purpose of organizational theorizing. By interweaving historical and theoretical analysis with the aim of better understanding a prevalent bridging-type organization, we address recent calls to fulfil Alfred Chandler’s legacy by re-establishing business history as a necessary complement to organization theory (Kipping and Üsidken, 2008).
In view of the gap in understanding the conditions for the success of industry associations, we use the comparative and counterfactual methods to answer the following questions. First, what are the determinants of the internal strength of industry associations? Second, under what circumstances might strong industry associations forego rent-seeking in order to promote industry and economic development? We know that associations have the potential to foster industry self-regulation that enhances standards and builds capacity (Bennett, 2000; Streeck and Kenworthy, 2005), but how is this potential realized? We derive answers by applying to our case associations theoretical categories drawn from NIE and OIT, while using the comparative and counterfactual methods to explain the performance differences and thus to test and further refine these strands of theory. Two sets of findings emerge from our analysis. First, a key determinant of an industry association’s internal strength is its level of social capital, such that associability cannot be automatically inferred from the association’s industry sector (cf. Traxler, 2007a). Second, an association’s industry strengthening ability is a product both of its internal associative capacity and the conditions it faces in its wider competitive, political and regulatory environments. We show that the effects of this external environmental architecture are subtly nuanced and frequently understated.

The next section presents the conceptual apparatus of NIE and OIT that informs our work on industry associations. We then describe the benefits of our historical research methods by situating our article at the intersection of business history and organization studies. A third section introduces the two associations and their historical settings, and investigates their internal organizational features and their external influences and relationships. The concluding section shows how our comparative historical analysis extends existing theoretical work on industry
associations, and how the theory-building role of business history enhances organization studies.

THEORETICAL PERSPECTIVES ON INDUSTRY ASSOCIATIONS

Understood as a ‘meta-organization’, an industry association is a third-party member-based organization with a brokerage role, membership of which is voluntary, and whose members retain their distinctive organizational identity (Ahrne and Brunsson, 2008, p. 3). The recency of the meta-organizations category, however, means that the attendant conceptual apparatus is underdeveloped. Likewise, most bridging organizations have the preceding characteristics (Westley and Vredenburg, 1991), but bridging organization scholars and theories concentrate on community based activist organizations and voluntary associations whose members are more diverse than the profit-seeking firms that typically comprise an industry association (Brown, 1991; Lawrence and Hardy, 1999; Geys and Murdoch, 2008). While recognizing the relevance to industry associations of these overarching organizational categories, in view of their conceptual and scope limitations, we put a layer of theory beneath them by drawing on a wide-ranging literature that spans sociology, politics and institutional economics.

Industry association theory is split between political and organizational sociology, on the one hand (Coleman and Grant, 1988; Schmitter and Streeck, 1999; Streeck and Kenworthy, 2005), the threads of which we draw together as the OIT perspective, and New Institutional Economics (NIE) on the other (North 1990; Doner and Schneider, 2000a). There have been few attempts to integrate NIE and OIT (Schneiberg and Hollingsworth, 1991; Doner and Schneider, 2000b; Berk and
Schneiberg, 2005). Scholars rarely use these perspectives in conjunction with each other to explain the internal organizing challenges faced by industry associations, nor to grasp the external effects of robust industry associations as industry strengtheners. To the extent that our subsequent comparison of two associations combines the insights of NIE and OIT, the purpose of this section is to demonstrate that they are complementary, rather than competitive, perspectives on industry associations.

New Institutional Economics (NIE)

Following on from the pioneering work of Douglass C. North (North and Thomas, 1973; North, 1990), NIE scholars have consistently focused on institutional devices that limit opportunism and reduce transaction costs. Recent work by Doner and Schneider (2000a, 2000b) identified industry associations as a vehicle for mitigating important sources of market imperfection that lie at the crux of NIE analysis (North, 1986; Williamson, 2000). In essence, they argue, associations facilitate exchange through reducing transaction costs (by mediation and by improving information flows), attenuate the need for hierarchy through mitigating agency problems (by reducing information asymmetries), and promote cooperation through resolving collective action dilemmas (by providing incentives). Their work provides a new line of thinking in the NIE tradition since associations were an organizational form previously neglected by such scholars. Moreover, they go on to address two central questions to the study of industry associations: the structural design issues affecting their associative capacity, and the circumstances under which associations go beyond rent-seeking to facilitate wider improvements in economic and business performance.

High member density, or encompassment, they argue, is a central aspect of associative capacity (Doner and Schneider, 2000b, p. 16). It enhances the
association’s influence over the industry and its claim to speak representatively, and it mitigates free riding by non-members or the emergence of a rival organization. Where high density is achieved through a small number of members in a concentrated industry, this reduces the costs of administering the association, particularly in securing cooperation, participation, and honest behaviour. Conversely, where membership is dominated by a few large organizations with their own substantial resources and powerful internal bureaucracies, they may be less inclined to make a major commitment to an association, believing the benefits accruing to be limited.

The most effective way to achieve encompassment is to make membership of the association highly attractive. Olson (1965) described the tangible ‘selective benefits’ that an association offers only to its members as club goods, such as shared physical assets and enhanced transacting powers. Intangible selective benefits are also prized, particularly the reputational signals that membership emits. In many cases, membership is an explicit indication of trustworthiness and creditworthiness where defaulters and bankrupts are expelled (Carnevali, 2004, p. 543). The ability of associations to mediate business disputes among members can provide a more swift, transparent, and low cost resolution than court orders. In turn, the existence of such explicit and implicit signals strengthens the enforcement powers of associations, expulsion being reputationally more damaging than non-membership.

While associative capacity explains how effectively an association can pursue its aims, the nature of those aims is strongly conditioned by pressures in the external environment. Given its emphasis on mechanisms that limit opportunism (Clague, 1997; Miller, 2005), NIE emphasizes external control and constraint as being the main reason why industry associations may transcend rent-seeking imperatives and assume a ‘market-complementing’ role (Doner and Schneider, 2000a, p. 263). Doner and
Schneider (2000a, pp. 275-8) argue that ‘third-party enforcement’, particularly by governments, transactors, and competitive international markets, will pressure associations to become more efficient. Governments and associations often work closely together, enabling the former to seek opinions and diffuse policy, and providing the latter with an opportunity for lobbying. Governments have conferred on associations various selective benefits, extending in some cases to compulsory membership. This interaction has provided governments with opportunities to pressure associations to seek improved economic performance in their sector of influence in return for the privileges of association. The relationship also enables governments to monitor more closely any rent-seeking activities. Enforcement can come from other third parties associated with the industry, especially organizations engaged in upstream and downstream activities that are eager to avoid incurring the consequences of anticompetitive behavior while encouraging efficiency gains along the value chain. Finally, as firms experience ‘market vulnerability’ during economic downturns, they exert themselves to cut costs for their members. Increasing market power is also much more difficult in such conditions.

**Organizational-Institutional Theory (OIT)**

The primary focus of NIE as far as the internal features of associations are concerned is on the structural characteristics designed to reduce free-riding. Just as institutionalism shifted the analysis of organizational structure in mainstream organizational theory to social formations (Meyer and Rowan, 1977; Scott, 1991), OIT differs from NIE by focusing on the social processes underlying industry association structure. OIT addresses the inherent ‘problem of associability’ when membership is voluntary (Traxler, 2007a, p. 15), and how goal formation and the
resulting character of the association are influenced by the socio-economic background and micro-social interactions of members (Bennett, 2000). OIT also singles out the State – or governments understood sociologically (Jessop, 2008) – as the key external influence on associations (Coleman, 1985; Coleman and Grant, 1988; Schmitter and Streeck, 1999). OIT changes the emphasis from ‘the government’, construed in NIE terms as essentially ‘an institutional arrangement’ that defines and enforces ‘property rights’ (North and Thomas, 1973, p. 97), to a sociologically-inflected analysis of State influence and structures – including corporatism (Streeck and Kenworthy, 2005).

OIT shows that the goals and objectives of industry associations are often diverse and prone to change (Berk and Schneiberg, 2005), rather than being static or predefined by the conditions of market failure. OIT is also amenable to sociological insights concerning the influence of member orientation and commitment on organizational focus and strength (Etzioni, 1961), and the importance to robust member-based organizations of strong communal ties between members that generate social capital (Coleman, 1988). OIT is therefore compatible with an eclectic mix of approaches that focus on the social connectedness and embeddedness of actors in economic and organizational settings (Grannovetter, 1985; Coleman, 1988; Walker et al., 1997; Wenger, 1998). In line with embeddedness arguments, the recognition of common interest is shaped by the micro-social embeddedness of industry association members within a ‘relational setting’ (Somers, 1994, p. 626), which acts as a repository of shared understandings. Commonalities in social and professional background and aspirations of the members of the association may foster an innate sense of cooperation (Grannovetter, 1985). These kinds of network-based social
relationships promote association cohesion, to the extent that social capital functions as ‘a means of enforcing norms of behaviour’ (Walker et al., 1997, p. 111).

OIT furthermore regards industry associations as having the capacity to move beyond merely resolving the problems of market failure, to which NIE draws attention, by providing new opportunities for industry and firm development through reflexive organizational learning (Berk and Schneiberg, 2005; Rosenkopf and Tushman, 1998). The key point of difference with NIE is the assumption that a developmental or industry enhancement role by an association may occur in a volitional manner, without being prompted or necessitated by forceful external controls. Associations that take this role resemble ‘a community of mutual engagement’ (Wenger, 1998, p. 126), they exhibit strong member self-discipline (van Waarden, 1985; 1995), and possess the attendant capacity for industry self-government (Streeck and Kenworthy, 2005, p. 455).

By extending the notion of governmentality to include both corporatism and self-regulation, OIT provides an additional dimension to NIE’s emphasis on how the market-complementing role of industry associations may be spurred by the enforcement characteristics of government action. A key OIT insight is that corporatist systems, in countries such as Australia and New Zealand with strong ‘state-licensed structures of interest intermediation’ (Traxler, 2007b, p. 5), have a significant role in shaping the character and activities of industry associations (Streeck and Kenworthy, 2005). Moreover, for OIT the relationship between industry associations and governmentality is not exhausted by State regulation. Industry associations may themselves assume a State-like role as a kind of ‘private government’ that fosters behavioural self-regulation (Schmitter and Streeck, 1999, p. 57).
**Integrating NIE and OIT**

Our comparative analysis of two New Zealand industry associations integrates the respective insights of these perspectives. With regard to the internal strength of industry associations, NIE highlights the organizational structural designs and incentivizing and sanctioning devices that are intended to minimize collective action dilemmas. OIT complements this view by providing insight into the social processes behind the structural devices that militate against free-riding. Each perspective also addresses the industry strengthening role of associations in a complementary manner. While NIE points to the importance of external constraints in the adoption of this role, OIT shows how an industry strengthening emphasis may also be projected upwards from the grassroots level, based on communal social ties that establish trust and shared expectations of behaviour among association members.

**BUSINESS HISTORY METHODS AND ORGANIZATIONAL THEORY**

Our approach to engaging business history with organization studies suggests that each has strengths from which the other may benefit. How exactly business history complements the study of organizations has been debated both by historians and organizational analysts (Kieser, 1994; Clark and Rowlinson, 2004; Leblebici and Shah, 2004; Kipping and Üsidken, 2008). The resulting roles into which business history is cast range from subservience to near equivalence with organization theory, as modes of inquiry into the structure, functioning and development of organizations (Üsdiken and Kieser, 2004). The subservience role has, however, a tendency to win out. How historians are trained makes them prone to leaving key theoretical presuppositions implicit within their writing, as they ‘operate within an implicit
paradigmatic framework that is shared by most of the practitioners of the discipline’ (Lloyd, 2008, p. 402.). Business historians are as guilty of pulling the blinds on theory as social or labour historians. Any engagement between organization studies and business history thus risks the latter being relegated, as Allport (1942, p. 55) might say, to the status of a helpless empiricist tail to the theory-laden organization studies kite. This is the classic ‘underlabourer’ role for a discipline (Winch, 1958, p. 3), wherein historians merely supply the primary archive-based studies that organization scholars then appropriate with a broader theoretical purpose in mind (e.g. Newton, 2004).

Mindful of Clark and Rowlinson’s (2004) warning to business historians about the pitfalls of cramming history into essentialist organizational categories, we reject the underlabourer view. Rather than subsuming historical approaches into organization studies, we demonstrate that one important role for business historical research is in circumstances where there are disparate or competing bodies of theory that vie for the attention of organization scholars. Industry association theory is a case in point. Simply stated, recourse to historical cases helps to overcome theoretical fragmentation. Our comparative analysis illustrates how the insights of NIE and OIT can be merged by applying modes of thought and analysis that business historians regularly use, expertly but albeit often tacitly, in the analysis of primary materials. The passage of time provided by the historical approach provides a sharper and more complete focus for eliciting comparative differences, for counterfactual reasoning, the specification of the conditions of necessity versus sufficiency, and an appreciation of how organizing potential may be realized in practice. The separation in time of actors from researchers means that archival research, unlike participatory contemporary research, avoids obtruding on the behaviour of actors (Welch, 2000). In addition, it
can provide access to sensitive and confidential information, the absence of which conceals key motivations in much empirical research. Where there is rich extant archival material it can provide ‘thick description’ (Geertz, 1973), which is replete with specific detail from a range of complementary sources.

Being able to chart the fortunes of organizations like NZWBA and NZPEA over several decades, based on fine-grained analysis of their primary records, provides rich qualitative data that has perspective. This is essential for the proper analysis of counterfactuals (Hawthorne, 1991). Historically grounded counterfactual analysis, in turn, helps researchers to distinguish conditions of necessity from conditions of sufficiency (Tucker, 2009, p. 100). Combined with a detailed comparison of the two associations, this method enables us to specify what makes some industry associations effective and others ineffective. We show that ‘single comparisons’ involving a pair of similar organizations, such as NZWBA and NZPEA, do in fact ‘yield theoretical gains’ (Rueschemeyer, 2003, p. 306). The next section specifies how our comparative business historical study provides a rich empirical basis for an enhanced theoretical understanding of the activities of industry associations.

COMPARATIVE ANALYSIS OF TWO INDUSTRY ASSOCIATIONS

Our associations developed against the backdrop of a distinctive colonial heritage shared by dominion societies (Ehrensaft and Armstrong, 1978). New Zealand’s economic development since British settlement in the mid nineteenth century has been founded on the export of staple commodities particularly wool, refrigerated dairy products, and frozen meat. While the economy diversified into services and
manufacturing in the course of the twentieth century, commodity exports remained at
the core of the nation’s economy (Hawke, 1985). A long and complex supply chain
has been required to move these commodities from the farm gate into the hands of the
overseas purchaser. Growing, financing, transporting, storing, selling and exporting
the annual wool clip, for example, was an enormous enterprise involving many actors:
graziers and farmers, shearers, stock and station agents, the railway companies, banks,
insurance companies, freight forwarders, wool brokers, wool buyers, stevedores, the
port authorities, carters, storemen and packers, shipping agents and shipping
companies. Money changed hands along this chain for services rendered. However,
these commercial transactions were not conducted at arm’s length between parties
who bought and sold solely on the basis of price. Rather they were relational
interactions embedded within a social and institutional substrate (Granovetter, 1985).
The commodity trades, in particular, depended on associations and institutions whose
role was to further the aims of the parties through negotiation and communication.
Firms, who were competitors at one level, formed associations that gave them a
collective voice in negotiating with other organizations and resolved issues within
their own industry.

Two of the key groups in the supply chain were the wool brokers, who
managed disposal of the wool at large centralized auctions, and the port employers,
who arranged for its delivery and safe stowage on board ship prior to its long sea
passage to foreign markets. Industry associations were formed by the leading firms in
both groups, the New Zealand Wool Brokers Association (NZWBA, formed in 1907)
and the New Zealand Port Employers Association (NZPEA, formed in 1949).
Industry associations as an institution are by their nature heterogeneous in size,
function, and location. Our two associations share many similarities particularly their
location in the same agricultural commodity export chain, and in a sector that is
known to be highly suitable for comparative studies of industry associations due to
their prevalence and corporatist-style arrangement (Grant, 1987, pp. 4-5). Moreover,
they both functioned as service providers although the NZWBA served product
market interests and NZPEA labour market interests.

The records of both associations are held by New Zealand’s Alexander
Turnbull Library (hereafter ATL), which is part of the National Library of New
Zealand in Wellington. The richness of this archival evidence permits a close
comparative examination of their performance and an assessment against, and
reconciliation of, the differing theoretical standpoints identified in the previous
section. Our primary data includes minutes of meetings, correspondence, annual
reports, and associational rules and regulations, which provide the level of focus
required by business historical analysis.¹ We analyze the internal dynamics of the
associations, followed by their external industry effects.

Internal Organizing Challenges

Two key insights of NIE are that high member density is important to the ability of an
industry association to achieve internal organizational strength, and that the provision
of selective benefits limits opportunistic behaviour by members (Doner and
Schneider, 2000b). This section describes the level of encompassment and selective
benefits provided by each association. Counterfactual reasoning is then used to argue
that these are necessary but not sufficient conditions for creating internal
organizational cohesion and industry association strength. The latter depends, in
particular, on social capital formation and overcoming the erosive effects of spatial
distance on member control.
Organizational Structure and Membership Composition

Both NZWBA and NZPEA were encompassing organizations that spanned their respective industries as ‘comprehensive’ industry associations (Coleman and Grant, 1988). NZWBA’s membership consisted of the regional associations (see Figure 1), which had come into existence in the late nineteenth century in response to the growth of the local wool market. Most regional associations joined at the time of NZWBA’s formation in 1907, although a few were added by 1911, persuaded by four years of successful cooperation among the associations, and the achievement of measurable progress in resolving issues with the New Zealand Wool Buyers Association. Seven of the eight wool auction centers had regional associations that were NZWBA members in 1911 and between them accounted for 98 percent of the wool auctioned in New Zealand. Membership density remained high throughout its history, bolstering its right to represent local brokers and gain access to government, thereby displaying a ‘logic of influence’ (Schmitter and Streeck, 1999, p. 19), while mitigating the risk of free riding on its role as contributor to the public good. Applications for membership went to an election, with rejection signified by the casting of three black balls. In practice, there was no general attempt to limit entry, and fees were set at relatively modest levels (ATL, MSY-4135, NZWBA Minute Book).

The number of members remained comparatively small and stable, which reduced the costs of administration and made it easier to gain cooperation on decisions. A contraction in membership in the latter half of the twentieth century
reflected the reduction in selling centers through amalgamation and rationalization in the industry rather than reduced participation. The membership of the regional associations was similarly small, stable, and dense. It comprised the local wool-broking firms selling in the major centers (town members), and a country membership, with reduced powers and status, for local stock-and-station agents, who forwarded wool from smaller inland areas to the auction centers. Thus, in 1911 seven associations representing thirty-three local brokers and selling agents were members of NZWBA. The division between types of membership is indicated by the fact that twenty-four of these thirty-three members were brokers selling at the major ports.

A group of wool brokers expanded nationally in the first few decades of the twentieth century to dominate the industry. The top five brokered one-half of the wool auctioned in New Zealand and developed national structures and policies: Dalgety, New Zealand Loan and Mercantile Agency, Wright Stephenson, National Mortgage and Agency, and Murray Roberts. Thus, the number of firms with a membership of more than one regional association became an important factor in the cooperative dynamics of the NZWBA. By 1911, 47 percent (twenty-four out of fifty-one) of memberships of regional associations were held by firms with more than one such membership nationally (ATL, MSY-4133, NZWBA Minutes, 1911). No firm, though, individually dominated the wool-broking industry or its associations: 18 percent was the maximum national market share held by any firm prior to major rationalization of the industry in the 1960s. Nor did any of the regional associations control the NZWBA: the maximum market share over the same period was 39 percent (Ville, 2000, p. 129). The absence of a dominant firm or association suggested that either strong competitive rivalry would ensue or that leadership and direction might occur through cooperation and mutuality of interest. While these firms were fiercely
competitive with each other, they were operationally quite similar and shared many interests and goals that could be furthered through cooperation.

Shortly after its formation, NZPEA also became an encompassing association with high member density. Matching information from its confidential annual reports during the 1950s, with official records of wages paid to waterfront workers, suggests that more than 80 per cent of firms (over 50) involved in stevedoring were members of the association. Despite NZPEA’s large and diverse membership, the industry was relatively concentrated: calculated on a wages paid basis, four shipping companies accounted for 62 per cent of employment in 1955 (Waterfront Industry Commission, 1956, pp. 48-51). Companies joined NZPEA at the national level, and in so doing became members of local branches at the ports where they operated. Many small firms engaged in stevedoring at a few ports or even just a single port, but a handful of national shipping firms were members of several local branches. The resulting organizational structure is depicted in Figure 2.

In contrast to NZWBA, however, NZPEA was dominated by two sets of firms with different interests: the four Conference Lines that had longstanding contracts with New Zealand’s Producer Boards to ship highly seasonal primary product exports to Britain (Shaw Savill and Albion, P&O’s New Zealand Shipping Company, the Vestey family’s Blue Star line, and Port Line), and the numerous coastal shipping companies that ferried general cargo between the country’s ports or to Australia. These companies had their own associations, respectively the Overseas Shipowners
Committee (OSC) and the New Zealand Shipowners Federation (NZSF), whose members were represented on NZPEA’s Management Committee in equal proportion. In 1955, the shipping companies that Management Committee members represented accounted for 71 per cent of wages paid to waterside workers.

The cost of time in port was the key matter on which the interests of OSC and NZSF differed. The coasters entered port more frequently than the deep-sea operators, which meant that costs associated with vessels lying idle at berth – while waterfront workers loaded and unloaded cargo – comprised a larger share of their total voyage costs. As repeat users of waterfront labour at multiple ports, the Management Committee’s NZSF representatives erred on the side of labour cost minimization. In contrast, the Conference Lines were more susceptible to hold up at peak export times, due to the problematic nature of transactions with labour or the harbour boards that supplied equipment, and were quick to cede pay concessions in order to avoid disruptive strike action.

Selective Benefits and Dispute Resolution

Membership of NZWBA and its constituent associations yielded significant benefits for brokers. Firms participated in joint local selling, which generated scale economies in physical infrastructure and marketing, particularly ownership of the saleroom, shared administration of the auctions, and joint catalogues. Membership conveyed participation in the national roster of sales, thereby avoiding clashes with other regional auctions. Many of the objectives and outcomes of NZWBA were best or solely captured through membership. These particularly included industry representation, enhancement of the auction system, and regulation of the market.
Active participation gave members a voice in these matters and in how the industry addressed major shifts in the external environment.

Membership provided reputation guarantees for firms and associations. The expulsion of members who repeatedly breached association rules or sale conditions or were deemed guilty of ‘disgraceful or dishonourable conduct’, along with the blacklisting of deviant transactional parties, helped to protect members from opportunism. Graduated fines up to £50 and temporary suspensions distinguished the minor or occasional offender from the recidivist, and helped to balance the potentially conflicting aims of high membership density and effective enforcement. Through such rules, therefore, membership signaled trustworthiness and creditworthiness to other members and to other transactional parties, particularly growers and buyers. In addition, they would have enhanced their reputations through professional activities organized by, and associated with, NZWBA, such as setting standards and arranging classes for wool sorting in local technical institutes (ATL, MSX-4323, Wellington Woolbrokers Association Letterbook, 2/6/1910).

The most significant tangible selective benefit of NZPEA membership stemmed from the New Zealand port system of collectivized resources, both human (pooled labour) and physical (common-use wharves and cargo-handling equipment). Queues of ships at the country’s ports were commonplace in the 1950s. Membership allowed the different shipping interests to participate in a rostering system for allocating each port’s government-administered labour pool and publicly-owned berths. However, this selective benefit diminished in the mid-1960s due to external environmental changes associated with technical progress, attendant shifts in the stevedoring industry’s firm composition, and increasing labour militancy.
Other services that NZPEA provided had the character of public goods from which selective benefits could not be derived, thereby leaving the association more exposed to free-riding. A prime example was NZPEA’s efforts to minimize wage competition by negotiating with federated port unions a national labour relations agreement, which set base rates and eliminated the need for spot contracting with labour. NZPEA non-member firms could free-ride when employing waterside workers, by using this agreement without directly contributing to the cost of its negotiation.

For NZWBA, associational mediation of bilateral disputes between members or representation in disputes with members of other associations reduced the cost and time involved in resolution. NZWBA’s constitution contained instructions for dispute resolution. Cases were heard at a general meeting, where the issue was resolved by a majority vote of members (ATL, MSY-4135, NZWBA Rules and Regulations). The process was standardized, and the members were well placed to judge matters that were technical and specific to the trade. Under NZPEA’s rules, however, contested proposals at the Management Committee could only be confirmed by means of unanimous vote (ATL, 89-395-071, NZPEA Rules). The need to achieve unanimity meant that contentious issues took months or even years to resolve. Agreement to press the unions for shiftwork to extend the hours of port operation, which the Conference Lines sought but coastal companies considered too expensive, took almost three years to achieve (ATL, 89-395-203, 89-395-204, NZPEA Management Committee Meetings 394, 396 and 408). While NZPEA had a modicum of success at resolving differences of interest between the Conference Lines and coastal companies over the priority use of labour and equipment, the coasters remained fundamentally dissatisfied (ATL, 89-395-203, 89-395-204, NZPEA Management Committee

Social Capital and Long-distance Control

Despite NZPEA being an encompassing association, the selective benefits it provided were not sufficient by themselves to preclude opportunistic behaviour by firms, and its mediation mechanisms could not overcome fundamental differences of member interest that stemmed from large numbers and member heterogeneity. The comparative case of NZWBA affords insight into the counterfactual. If NZPEA had supplied greater selective benefits and been better at resolving disputes between members, its cohesion would not have increased proportionately. The NZWBA case shows that selective benefits and effective dispute resolution are necessary but not sufficient for internal organizational strength – prerequisites of which include building social capital among members to elicit trust-based relationships, and establishing integration mechanisms that overcome the problem of ‘long-distance control’ (Law, 1986, p. 234) by compensating for any lack of geographical propinquity among members.

NZWBA developed considerable social capital in relationships forged at the regional level between member firms. Social networks and shared experiences reinforced the attractions of membership. The occupational backgrounds of senior managers, representing broking firms with the same heritage, were similar to one
another. Regionally, many employees went to the same schools, participated in the same social clubs, had worked as landowners and sheep farmers, and frequently moved between firms (Ville, 2000, pp. 60-1; Stone, 1987, pp. 123-4; Christensen, 1986, p. 45). Such commonalities reinforced their desire to participate actively in the associations, as shown by the records of high attendance at meetings, the almost complete absence of threats of resignation, and an unwillingness to push divisive issues and minority viewpoints.\(^8\) NZWBA approximated a ‘closed network’ (Burt, 2002, p. 154), in which strong social ties between members elicited high levels of normative commitment that militated against opportunistic behaviour and assisted with the mediation of disputes between members. These social capital-based ties also predisposed members to accept and submit to the Association’s rules. NZWBA’s regional association members frequently met face-to-face in community settings and the region-based representational structure, and its domination by a small group of national firms, provided effective cross-regional communication and linkages that overcame the geographical distance between members.

In contrast, NZPEA manifested much lower levels of cooperative behaviour and had no effective solution to the problem of long-distance control. Members of the Conference Lines and coastal companies were of different national origin (Britain and New Zealand respectively), and the coasters were not above playing the nationalist card – as Holm’s aforementioned ‘charity’ comment suggests. It was an association afflicted by divergent sectionalist interests with little evidence of attempts to build social capital among members. Resignation threats by members were not uncommon: in 1965 Bob Owens, who built a transport conglomerate (The Owens Group) on the basis of stevedoring profits at the Port of Tauranga, contemplated breaking away from NZPEA to establish a separate association to represent newly emergent independent
stevedoring companies (ATL, 89-395-203, NZPEA Management Committee Meeting 371).

The concomitant of NZPEA’s paucity of social capital was its difficulty controlling the activities of member firms, which were scattered around more than 20 ports on New Zealand’s lengthy coastline. NZPEA’s port branches operated in line with the wishes of firms at each port, frequently with little recourse to the national Management Committee. Rules were openly flouted by members, particularly by striking local deals with trade unions, and transgressors were rarely sanctioned. NZPEA members and non-members alike sought to achieve labour cooperation either by ‘purchasing’ consent, in the manner of the Conference Lines, or by following the cue of coastal shipping companies that tolerated informal work practices. NZPEA’s national officials frequently called for member firms to provide ‘a standard application of [workplace] discipline’ (ATL, 89-395-202, NZPEA Annual General Meeting, 10/10/1964), but trust within the Association was so low that the Management Committee eventually resorted to costly monitoring through the appointment of a ‘Travelling Inspector’ who motored between ports observing work practices in an attempt to eliminate the member-tolerated informal practice of ‘spelling’ (ATL, 89-395-131, NZPEA Annual Report, 31/3/1973).\(^9\) NZPEA’s efforts to influence the actions of its members ultimately failed because it had little control over firms and their internal agents, the managers who brokered these side-deals.

Lack of social capital and member control increased NZPEA’s weakness in its negotiations with labour organizations. Despite being a centralized organization, it was unable to prevent union exploitation of member differences in relation to transactions with labour. Weak ties and low levels of trust between members meant that they failed to abide by the NZPEA’s rules, concerning the need for the
Management Committee to authorize all local agreements (ATL, 89-395-071, NZPEA Rules). The NZPEA’s representational structure did nothing to prevent opportunism as member firms did direct deals with local unions to secure labour cooperation, which had the effect of ‘bidding up’ labour rates above the national minima. As a result, NZPEA’s Management Committee failed to limit wage drift (Reveley, 2003, p. 116).

Synthesis of Findings

NZWBA approximated a ‘high-involvement organization’ (Lawler, 1992), but for NZPEA the level of member involvement was low. This level is not automatically and unambiguously determined by how encompassing an industry association is, or by the selective benefits that it provides – despite the primacy NIE affords to each of these matters in accounting for association strength. Rather, high encompassment and the provision of club-like benefits merely supply favourable background conditions against which the fostering of normative commitment by members may occur. Drawing on the OIT perspective, whether an industry association becomes a high involvement – member-driven – organization is then determined by the extent to which there is a congenial relational context, rich in social capital, for the construction of shared understandings between members.

External Industry Effects

In accordance with the NIE view, NZWBA’s experience indicates the role of external constraints in influencing the behaviour of associations away from mere rent-seeking to promoting the broader interests of the industry and its economic setting. Of particular importance as constraining institutions were the highly competitive
international wool market, the wool buyers, and the State. However, their role extended beyond constraining rent-seeking activity, as a simple interpretation of the NIE literature might imply. Rather, when considered through the lens supplied by OIT, cooperative behaviour elicited by these external components steered the NZWBA in the direction of what Berk and Schneiberg (2005) call a developmental learning association.

Many of the industry associations established in the late nineteenth century were believed to have colluded in an effort to counter a period of economic downturn and low profits. In Australia, for example, the Associated Northern Collieries was an agreement between major mine owners dealing with prices and profits (Fleming and Terwiel, 1999). This does not appear to have motivated the NZWBA. The fact that price fixing was not revealed in their archives nor an ongoing issue in relations with the buyers is perhaps unsurprising in light of the discipline imposed by a highly competitive international wool market. In contrast to coal, there were large numbers of wool producers. New Zealand’s share of the international wool market was less than 10 percent, while a further 25 to 30 percent was sold at the neighbouring ports of Australia (Abbott, 1998, p. 260). Wool also faced increasing competition from synthetic fibres by the 1920s. Instead, brokers and their associations supported an unfettered free market, and they were vocal in their opposition to post-World War II government proposals for price or output controls. NZWBA focused its thinking about the wool market towards shifting the point of sale from London to New Zealand. It acted as a powerful advocate of local auction selling in the face of opposition from London importing houses and brokers and, locally, from some of the British and Australasian banks with substantial interests in the London market.
NZWBA encouraged its members to sell locally with a view to establishing the scale of activity necessary to compete with the long-established London market.

One of NZWBA’s key relationships was with the New Zealand Wool Buyers Association. As the representative body of wool buyers, they naturally maintained a watching brief over any attempts by the brokers to manipulate prices or volumes to the benefit of sellers. What is interesting about the evidence contained in NZWBA correspondence with the buyers association is the almost complete lack of discussion of, or concern about, market manipulation. Instead, the focus was on cooperative ways of building a more efficient auction system that would compete with the long established London market. Far from seeing a national representative of brokers as a threat, the buyers encouraged the formation of NZWBA as a sovereign governance structure that could serve as an effective communications channel for improving the operation of the wool market (ATL, 96-223-01, NZWBA Correspondence, 8/11/1911). Developmental achievements through inter-associational cooperation centered on agreed practices that were codified in documents as routines. For example, a ‘conditions of sale’ document set rules on matters such as the conduct of the sale, the process for delivery of wool to the seller, and the point at which legal and insurance responsibility shifted from seller to buyer (ATL, 96-223-09, NZWBA Miscellaneous Papers; ATL, MSX-4323, Wellington Woolbrokers Association Letterbook, 19/7/1909).

Another external constraint was the State, a key factor to which OIT draws attention (Streeck and Kenworthy, 2005). Close networks and channels of communication existed between the broking industry and successive governments, particularly as a consequence of political representation and socio-economic propinquity. As a result, State actors treated the NZWBA as a ‘private interest
government’ (Grant, 1987, p. 12) that managed the affairs of the industry and regulated the behaviour of its players. Where direct involvement occurred it was as much intended to address issues of mutual interest, such as through the exchange of information and expertise, as to impose discipline. Contact with the State was at its most intense during and immediately after the two world wars, when NZWBA played a key role in organizing the wool monopsony of the Imperial Government and in the orderly postwar disposal of large surpluses.

NZPEA’s external environment was markedly different from that of NZWBA. While the wool brokers competed in an international wool market, port services constitute a derived demand that is specific to the trade patterns of a particular locality. Therefore, at most, competition occurred among ports in a locality or nationally in some cases. Competitive rivalry was further dampened by the cartel-like operation of the four British Conference Lines. Firm heterogeneity produced the main external constraint, manifest in the split between the Conference Lines and coastal shipping companies that resulted from their different level of ability to absorb increased port labour costs. Cooperative behaviour was hindered by this cleft, and arguments between the two sets of members arising from their different priorities in the payment, allocation and use of labour are abundantly evident in NZPEA Management Committee minutes (ATL, 89-395-202, NZPEA Management Committee Meetings 297, 314 and 325).

A contrast with NZWBA is also observable in relations with transacting partners. Relations between the shipping companies in NZPEA as buyers of labour services, and the labour unions representing the sellers of labour services, were often fraught. NZPEA struggled to deal with growing union militancy, prompting eminent labour jurist Judge Archer’s complaint that ‘port employers…consistently give way in
the face of a threat of strike action’ (ATL, 92-305-01, New Zealand Waterfront Union Workers Records, Reference to Minutes of Harbour Boards Conference, 16/3/1966). NZPEA’s failure to stem wage drift meant it was unlikely to be built into a developmental association. Without the stabilizing effects of such an association, corruption flourished at ports to the point where a ‘Pillaging Committee’ was established in 1974. This was intended primarily to represent shippers and legal authorities, in an effort to halt the theft of cargo from the ships’ holds by port workers – whose opportunistic behaviours occurred while under the employ and supervision of many NZPEA member firms (ATL, 89-395-133, Pillaging).

Given these failings it is understandable that NZPEA, in contrast with NZWBA, was not granted private government rights to manage and regulate the industry. Its lack of internal cohesion and poor relations with other transactors made it an inappropriate organization to play that role since it was not well placed to provide direction through reflexive learning and interaction among its own members and with unionists. By the early 1970s relationships with union representatives had decayed to the point where NZPEA described them as ‘extend[ing] very little cooperation and do[ing] little or nothing to achieve a harmonious working relationship’ (ATL, 89-395-131, NZPEA Annual Report, 31/3/1973). NZPEA’s lack of cohesiveness led to the capture of rents by stronger industry stakeholders, namely the port unions and their federated association (the Waterside Workers Federation). In turn, this inability to maintain stability in its transactions with key stakeholders affected NZPEA’s ability to work with State representatives in a developmental role. This ultimately led to the deregulation of the industry in the 1980s, and the collapse of NZPEA (Reveley, 2008).
When juxtaposed, the comparative cases of NZPEA and NZWBA show that internal associative capacity and external relations, in combination, determined the industry strengthening capabilities of these associations. Whether an association becomes developmental depends on its ability to manifest learning and adaptive efficiency, by using past experience and changing environments to modify and improve routines. The historical passage of time enables us to make some judgements here. NZWBA proved to be an adaptable organization that learned from experience and modified its behavior as new situations arose. Across its history, there are many examples of NZWBA’s learning and adaptation. The impact of war and postwar congestion on the length of the ‘prompt’ (the allowable time period from sale to onboard delivery) was handled much more expeditiously during and after World War II because it had learned from the drawn-out discussions that had taken place during World War I. Similarly, the national roster required significant amendments over time, which included extending the selling season and organizing separate North and South Island rosters to mitigate private sales and avert congestion. Procedures for monitoring sensitive activities, such as weighing and completing accounts of sales, were enhanced and more clearly specified over time (ATL, MSX-4323, Wellington Woolbrokers Association Letterbook, 17/12/1914). NZWBA’s ability to modify its behavior in line with shifts in the external environment is best indicated by its record of changing its role as wartime gave way to depression and, later, to postwar expansion. Most obviously, the center of its attention shifted from dealing with the wool buyers in peacetime to working closely with the New Zealand and British governments in wartime.

NZPEA’s post-World War II performance was very different, because it was not an adaptive institution. It exhibited little adaptive efficiency to the industrial
change that occurred apace, in the late 1960s, as containerization fundamentally altered stevedoring operations (Levinson, 2006). It took the NZPEA until 1976, more than a decade after divisions between members stemming from the emergence of new types of stevedoring firms was flagged at Management Committee meetings, to achieve a resolution that it should reconstitute itself (ATL, 89-395-205, NZPEA Management Committee Meeting 634). In the absence of effective organizational learning about how to deal with cross-cutting cleavages among NZPEA members, increasing member heterogeneity after containerization further reduced the opportunities for coordination.

**Synthesis of Findings**

Combining the NIE focus on external factors that limit rent-seeking with the OIT emphasis on developmentalism and learning enables a richer view of the importance of an association’s external constraints. These constraints may be weak and hence fail to prevent rent-seeking within an industry (as in the case of NZPEA), strong enough to inhibit rent-seeking, or strong and cooperative wherein the focus shifts beyond the prevention of rent-seeking to industry developmentalism (as in the case of NZWBA). Within NZPEA, rent-seeking occurred in the absence of strong external constraints, while for NZWBA developmental opportunities were exploited to develop a highly successful alternative to the London wool market. The ability of NZWBA to manifest both strong associative capacity and respond developmentally to external influences shows that internal strength need not foster an inward-looking culture. Rather, its associative capacity was consistent with seeking external ideas and solutions. NZWBA’s achievements demonstrate that forceful external controls, such as external regulation, are not a necessary prerequisite for shifting an industry association
towards an industry development role. The contrasting NZPEA case nonetheless suggests that a purely volitional shift in a developmental direction is unlikely to occur without external conditions that nudge associations in this direction.

CONCLUSION

Following Chandler’s (1977; 1990) pioneering lead, business historians are well-placed to contribute meaningfully to organization studies if they help to theorize key facets of organizations. Our comparative study of industry associations fulfils this goal of theory augmentation on two counts. First, it has done so by showing how business history can be used to merge different traditions – such as NIE and OIT – in areas of interest to organization scholars where the existing theoretical literature is fragmented or underdeveloped. Understanding an industry association as a distinctive type of meta-organization, one whose primary purpose is interorganizational bridging, draws attention to its role in connecting diverse members. Bridging-type organizations in general and industry associations, in particular, must make links between socially and spatially differentiated actors, harmonize their different values, and engage with powerful external agencies (Lawrence and Hardy, 1999). Using NIE and OIT, we have framed these tensions, respectively, as problems that industry associations face in maintaining long-distance control, building social capital, and establishing private government rights. Our efforts to re-theorize industry associations suggest, therefore, that there is merit in broadening the bridging organization concept, beyond its origins in understanding community activism (Brown, 1991), to encompass how firms build bridges and connect with one another through meta-organizations.
Second, our comparative business historical analysis augments organization theory by answering outstanding questions about the determinants of internal organizational strength and the wider industry development role of industry associations. Expressed in terms of a classic philosophical distinction, we have combined NIE and OIT concepts to explain how the internal organizing ‘potentialities’ of industry associations are converted into actualities (Melchert, 1995, p. 615). In counterfactual terms, NIE highlights necessary ‘background conditions’ for the formation of industry association cohesiveness (Tucker, 2009, p. 100), namely congenial structure and the provision of extensive selective benefits and mediation services for members. The NIE concept of associative capacity connotes potentials, that is, whereas OIT explains how these potentials are realized through the medium of social capital that fosters trust between members of the association, commitment to its goals, and the desire to abide by its rules. Thus, the provision of selective goods is necessary but not sufficient for an internally strong industry association. Internal strength depends on an association having a high level of social capital. The different levels of social capital found in NZWBA and NZPEA are instructive since an existing literature suggests that labour market associations ‘tend to be less divisive’ than product market associations (Traxler, 2007a, p. 24). Our comparative analysis reveals the opposite to be the case: NZWBA (a product market association) was replete with social capital and proved highly successful and enduring, while NZPEA (a labour market association) lacked social capital and was plagued by divisiveness leading to its ultimate demise. This finding suggests that levels of associability cannot be directly inferred from the industry sector location of associations.

We have also spelt out the conditions under which industry associations might assume an industry development role. This role does not emerge in a straightforward
way from an association’s internal cohesiveness and level of social capital, but also from the kinds of relationships in its external environment that NIE understands as militating against rent-seeking. Our evidence on three external constituents, namely competitors, transactors, and the State, points to a situation where constraints mattered but their impact was more wide-ranging than merely inhibiting rent-seeking behaviour. The interactions with these three institutions enhanced the developmental properties of NZWBA. We have shown that its internal strength enabled this association to move towards an industry-enhancing role. Moreover, we have built on that insight by showing that the reorientation of such an association towards a more developmental role drew upon its external architecture, that is, its relationships with key constraining institutions, as well as its organic internal properties. Once again, the business historian’s counterfactual reasoning plays an important role in teasing out these effects. Absent felicitous environmental conditions, there is no guarantee that NZPEA would have achieved a comparable developmental role even if it had been as internally coherent and rich in social capital as NZWBA.

While business historians have no monopoly on counterfactual or comparative analysis, we have certain advantages in using these methods. Applying them through fine-grained analysis of rich historical data helps to develop theoretically and empirically grounded propositions about the development and activities of organizations, such as industry associations, that have not featured widely in organizational research. Counterfactual reasoning provides a different way of identifying casual relationships than the correlational approach that is prevalent in much normative management theorizing. Rather than looking for empirical regularities in cross-sectional data, our in-depth comparison of two historical cases has permitted us to highlight the background conditions (provision of selective
goods), and then to specify the sufficient conditions (existence of social capital) for the success of an industry association. Sufficient conditions can be construed as causes (Tucker, 2009, p. 100), so we regard social capital as a cause of NZWBA’s success, and its absence a cause of NZPEA’s failure. The role of external institutions could be stated in a similar way, but there is a wider point that flows from our analysis. To the extent that these theoretically informed causal attributions are novel findings, the type of business history research from which they derive is a vital steppingstone to establishing generalizable propositions about the properties of industry associations. Thus demonstrated, the methodological benefits of business history mean that it should not be cast in a ‘supplementarist’ role (Üsdiken and Kieser, 2004), as the poor empiricist cousin of organization theory. Our article hopefully helps to put business history on a par with organization studies as a theoretically generative form of inquiry, rather than an underlabourer discipline.
REFERENCES


FIGURES

Figure 1. New Zealand Wool-Broking Association Organizational Structure
Figure 2. New Zealand Port Employers Association Organizational Structure

NZPEA

Elected Management Committee

NZPEA Members – shipping firms & stevedoring firms

NZPEA Local Branch (Port level)

NZPEA Local Branch (Port level)

NZPEA Local Branch (Port level)

Elected Branch Committee, Chairman, and Branch Secretary
NOTES


2 The following wool-brokers’ associations were members by 1911: Auckland, Christchurch, Dunedin, Gisborne, Napier, Timaru, and Wellington.

3 In a ballot a black ball vote by an existing member meant that they opposed the applicant.

4 Details of membership were recorded regularly in NWBA’s minute books, which cover 1907–84 (MSX-4330, MSY-4133-4141).

5 In some years, Pyne Gould Guinness had a larger share than Murray Roberts.

6 In 1957 the Committee comprised one representative each from the four Conference Lines, two representatives of P&O’s Union Steam Ship Company (the largest coastal shipping company), and one representative each from two smaller coastal shipping companies (Anchor Shipping and Richardson and Company).

7 Similar attributes have been identified in the Scottish woollen knitwear industry (Porac et al. 1989, pp. 404-5).

8 In 1914, for example, the Wellington Woolbrokers Association (WWA) backed down over the issue of bank rebates in the interests of associational unity (ATL, MSY 4120, WWA Minute Book).

9 ‘Spelling’ entailed waterside workers taking an unauthorized period of rest during paid working hours.