

# **Bridging the gap: the hanseatic merchants' variable strategies in heterogeneous mercantile environments\***

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**Abstract:** The merchants of the German Hanse in the 14<sup>th</sup>–16<sup>th</sup> centuries were confronted with a great deal of heterogeneity: Not only were they, in having not been specialised in the trade of particular goods only, acquainted with the exchange of a wide range of products, and had to act within the different organisational structures of the Hanse. They especially had to cope with mercantile environments that were differing tremendously inside the catchment area of the Hanse. In this paper, various dimensions of heterogeneity within the Hanse are described and the merchants' strategies deployed in order to compensate for possible negative implications of heterogeneity are discussed. It turns out, that with risk diversification, with a harmonisation of weights and measures, through a homogenisation of juridical regulations and by maintaining the pattern of reciprocal trading merchants could bridge the massive gap that existed between the western and the northeastern regions of the German Hanse's realm.

**Keywords:** The German Hanse, The Hanseatic League, late medieval trade organisation, trading networks, heterogeneous mercantile environments

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## **Focus of the paper**

Trade in Northern Europe during 14<sup>th</sup> and 15<sup>th</sup> centuries, and partly also in the 16<sup>th</sup> century, was dominated by the merchants of the German Hanse.<sup>1</sup> Geographically, they covered with their trade the wide area between London and Bruges in the West, Bergen in the North and Novgorod in the far Northeast, an area with a diameter of about 3.500 kms between its western and eastern poles.<sup>2</sup> Hanseatic merchants functioned as commercial mediators by transferring furs, wax, timber and grain from the East to the West, cloth and luxury goods from the

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<sup>1</sup> Cf. DOLLINGER 1989; HAMMEL-KIESOW 2000.

<sup>2</sup> Cf. SEIBT 1997.

West to the North and to the East, and dried cod and herrings from the North to everywhere. Cities played an important role within this trading system, because they were the very centres of the exchange of these goods. Firstly, it was in the cities of Bruges, London, Bergen and Novgorod, where the German Hanse possessed commercial outlets, the *Kontore*, as its outposts.<sup>3</sup> Hanseatic trade was centred here because of the liberties of the Hanse and the chance to get in contact with other trading systems and with merchants of other geographical origins. Secondly, the big hanseatic cities of Cologne, Lübeck, Hamburg or Danzig and many other smaller hanseatic towns were the bases for merchant families from where they could operate their business.<sup>4</sup> Finally, these hanseatic cities and towns not only were needed as points of exchange to maintain the chain-like trading of goods along the west-eastern line stretching from Bruges/London via Lübeck/Hamburg to Novgorod. They also were pivotal elements in coupling this long-distance trade with the regional and local systems of distribution.

Although the merchants of the Hanse with their commercial enterprises were present everywhere in the Baltics and the North Sea and could dominate the trade there to a certain extent, the regions that were covered commercially by them were far from being homogeneous ones.<sup>5</sup> In this paper, we will be analysing two aspects: Firstly, we would like to distinguish several sources and dimensions of the variability the hanseatic merchants were confronted with. From which characteristics did heterogeneity stem inside the hanseatic trading system? And, in which respect did particular commercial settings differ? Secondly, we attempt to demonstrate, how hanseatic merchants could cope with the immense degree of heterogeneity they usually had to handle. Which strategies did they choose in order to balance the differing commercial environments they were active in? Thus, with this paper we aim at contributing to the topic of the session by turning around its scope a little bit, away from a closer look at the context for commercial activities in a particular mercantile city to a focus, that is put onto a group of late medieval merchants, which had to get along with several of such contexts, these contexts having been rather different to each other.

### **Unequal hanseatic commercial settings – sources and dimensions of heterogeneity**

When talking about variability and heterogeneity as important contextual factors to the trading operations of hanseatic merchants, one has to distinguish several sources that could cause differing and even changing environmental conditions to the traders. Three of such sources were the merchants' handling of a variety of goods on the individual level, their embedded-

<sup>3</sup> Cf. BRACKER 1989, 143-176.

<sup>4</sup> Cf. BRACKER 1989, 177-300.

<sup>5</sup> Cf. MORAW 1987.

ness into the multiple organisational levels of the German Hanse and, probably most importantly, the huge dissimilarity of the mercantile environments they were faced to at the hanseatic outposts, namely in Bruges on the one hand side and in Novgorod on the other hand.

#### *The handling of a variety of goods*

The hanseatic commercial businesses in most cases were self-employed merchants or small-scale firms with only a very few number of employees.<sup>6</sup> An important feature of these enterprises was, that they usually not specialised in trading particular products or goods. In contrast, hanseatic merchants typically traded with a variety of goods. Even by the middle of the 16<sup>th</sup> century this persistence of being not specialised can be grasped: the merchants *Bertram Bene* from Oslo and *Bernt Kron* from Rostock, who were involved in a long-term reciprocal commercial relationship, mutually exchanged almost 30 different types of goods.<sup>7</sup> Since of course specific knowledge of product quality and market conditions was necessary for trading goods, one can easily imagine, that the handling of such a big number of products must have been far from being an easy and straightforward task for hanseatic merchants. Knowledge about the trade with goods such like furs, hats, belts, horses, apples, salmon or beer as it was the case with *Bertram Bene* and *Bernt Kron* for example, – each of these goods being very different indeed –, had to be acquired by the merchants and also had always to be kept up-to-date, in order to remain competitive on the various markets they were trading on. Thus, non-specialisation surely posed the problem of heterogeneity to the merchants of the Hanse at the individual level of the hanseatic trading system.

#### *The multiplicity of organisational levels*

Besides the fact, that hanseatic businesses were small, it would not be sufficient focussing solely the individual level of the hanseatic trading system and explaining the manifest degree of heterogeneity with the pattern of the merchants' activities only. Of course these habits in the internal commercial exchange between single merchants of the Hanse or those in the trade with foreign merchants were embedded into several overlapping organisational structures. And it was this multiplicity of structure itself, that constrained the activities of the hanseatic merchants to a certain degree, too.<sup>8</sup>

First of all, the hanseatic merchants were entrepreneurs, who in seeking for profits from their trade definitely followed an economic rationale. Nevertheless, they were also citizens of their respective home towns and therefore had to respect, at least to a certain extent, their

<sup>6</sup> Cf. CORDES 1989.

<sup>7</sup> Cf. THIERFELDER 1958, 194–207.

<sup>8</sup> Cf. BRANDT 1963.

home town's economic interests, trade regulations and juridical practices, while carrying on their trade.<sup>9</sup> The likelihood of this sort of potential conflicts between the interests of single merchants and communities' interests presumably increased further more after a political superstructure of the Hanse had emerged with the formal constitution of the Hanseatic League as an alliance of hanseatic cities by the middle of the 14<sup>th</sup> century. The Hanseatic League thoroughly developed own economic and political scopes and very strictly attempted to get these interests accepted not only by foreign traders but also by hanseatic merchants if those had a different opinion. This could of course create situations in which the individual merchant came into conflict with these higher order economic interests, when for instance having been confronted with the Hanse's typical ban on the formation of business partnerships with non-hanseatic traders.<sup>10</sup> Especially, this seems to have been the case during embargoes. During the hanseatic blockade of Flanders from 1358 to 1360 the traders of the town of Kampen tried to profit by neglecting to respect the prohibition of trade.<sup>11</sup> Although the Hanseatic League never really had a headquarters' function for hanseatic trade<sup>12</sup>, contemporary foreign merchants recognised their hanseatic competitors as belonging to a group sharing privileges they themselves would have liked to share. Thus, a third organisational structure that has to be considered as well when discussing the constraints of merchants' activities, are the *Kontore* of the German Hanse in the cities of Bruges, London, Bergen and Novgorod where hanseatic merchants shared these liberties to their own economic benefit. Having been the outposts of the German Hanse, the *Kontore* regulated the merchants' trading comportement in order to enforce the privileges, and as these markets were vital for the hanseatic system of trade hanseatic merchant families had keen interests to keep up personal contacts to hanseatic merchants operating there.<sup>13</sup>

### *The dissimilarity of mercantile environments*

Given the vast spatial extent of the German Hanse's catchment area in the later Middle Ages it is presumably not surprising, that within this area various commercial environments had been established and therefore hanseatic merchants got in contact with very different mercantile habits on a regular basis. Cultural and economic differences between the western and northeastern regions were tremendous. This enormous contrast could possibly be best demon-

<sup>9</sup> Cf. AFFLERBACH 1993.

<sup>10</sup> Cf. SPRANDEL 1984, 32–33.

<sup>11</sup> Cf. FRICCIUS 1932/33.

<sup>12</sup> See for a misinterpretation of the Hanse as having been a huge trading trust or a mercantile empire for instance still recently PICHIERRI 2000. In contrast, a more plausible interpretation of the Hanse is that of pressure group promoting long-distance trade (cf. IRSIGLER 1989, 518), and SCHELLERS 2003 also emphasises the character of the Hanseatic League as having been an alliance of cities with primarily political purposes.

strated by comparing the commercial settings which differed the most, these settings having been the market organisation in Bruges on the one hand side and that in Novgorod on the other hand. At first glance, these two cities where the hanseatic merchants shared trading privileges and where they had established the guild-like organisation of a *Kontor* seemingly have been fairly equal in terms of their size, location and commercial function. The two cities could be reached by the maritime long-distance trade via rivers and obviously both were very important commercial centres of their respective regions. And although Bruges with between 40,000 and 45,000 inhabitants (by the middle of the 14<sup>th</sup> century) was bigger than Novgorod with about 30,000 inhabitants (around the year 1400), this difference in size certainly was not the decisive reason in justifying the cities' overall differences.<sup>14</sup> These can be better explained by the unequal degree of urbanisation. Whereas Bruges was located in the densely populated and highly urbanised region of Flanders and therefore was embedded in a very close network of cities and towns<sup>15</sup>, Novgorod virtually was the only city in a rural region, and its sparsely populated hinterland stretched up to the Ural. Highlighting furthermore the extreme differences that existed between Bruges and Novgorod, the two cities can be compared to each other with respect to several characteristics of the trade handled there – the organisational design chosen for the respective *Kontor*, the trading practice on the local market and the respective financial and institutional framework for commercial exchanges on that market.

From the late 13<sup>th</sup> century onwards hanseatic merchants usually did no longer accompany their goods to market places. Instead they had established an office (*scrivecammere*) in their home town and in general operated their commercial business from there. Goods were shipped to distant market places by shipping agencies and could be sold there with the help of relatives or friends.<sup>16</sup> This change in business style promoting an overall growth in trade developed very much in parallel to developments elsewhere in Europe, Italy or Flanders for instance.<sup>17</sup> Nevertheless, the more old-fashioned type of caravan trade still remained in action within the catchment area of the German Hanse. For trading in Novgorod hanseatic merchants still had to travel there via the Baltic Sea carrying their goods along with them. Although the Hanse had established a *Kontor*, the *St. Petershof*, which was used for residence, a permanent settlement of merchants in Novgorod was strictly forbidden. In addition to that, the merchants were allowed to only show up in Novgorod once a year, which meant, that they could choose to travel there for either the summer or the winter. As a consequence, the *St. Petershof* was

<sup>13</sup> Cf. SPRANDEL 1984, 29.

<sup>14</sup> Cf. FRIEDLAND 1990; ANGERMANN / FRIEDLAND 2002.

<sup>15</sup> Cf. STABEL 1997.

<sup>16</sup> Cf. RÖRIG 1929.

not frequented unless during the two trading seasons in which the hanseatic merchants were present there, and opportunities for merchants to assimilate or eventually to integrate into the Russian host society were severely undermined.<sup>18</sup> The *Kontore* in Bergen (*Brygge*) and in London (*Stahlhof*) in principle were organised quite similarly to the *St. Petershof*, but regulations there were by far not as strict as they were in Novgorod.<sup>19</sup> In Bergen and in London the hanseatic merchants possessed a well-defined location where they were requested to live and to operate while staying there, but in both cities merchants had not to handle their trade personally, and also the trade in London at least was not really a seasonal business.<sup>20</sup> Moreover, mercantile organisation of course was totally different in Bruges.<sup>21</sup> Here, the Hanse run a *Kontor* as well, but this term, while describing a well-defined trading outlet in London, Bergen and especially in Novgorod, more or less only labelled the group of hanseatic merchants operating on the Bruges market. Hanseatic merchant organised themselves as a group having its own regulations and its own jurisdiction, and each merchant belonging to this group had to respect these rules of course, but the presence of merchants was allowed throughout the whole year and for as long as desired, and neither their residence nor their trade were bound to a fixed location in the city.<sup>22</sup> Instead, as traders from other origins, too, hanseatic merchants lived all around the city in hostellers' houses. These hostellers also helped to mediate the commercial exchange between hanseatic merchants and foreign traders and were to some extent responsible for the comportement of their hanseatic guests, including a possible standing surety for their guests' debts.<sup>23</sup> Thus, hanseatic merchants very often had stayed for years in Bruges before going back homewards.<sup>24</sup> There is a good deal of evidence that some of them even owned houses. Countless donations of Hanseatic merchants to hospitals, parish churches and monasteries in Bruges show their integration into the host society.<sup>25</sup> A very good example is that of a group of Prussian hanseatic merchants during the second half of the 14<sup>th</sup> century. Each of them stayed in permanence for many years in Bruges and their presence and their integration with the economic life in Bruges can be proved by entries into the Bruges tax list

<sup>17</sup> Cf. LOPEZ 1971.

<sup>18</sup> Cf. ANGERMANN 2002. All these regulations can be found in the so called *Schra*, the written ordinances of the *St. Petershof*: cf. SCHLÜTER 1911.

<sup>19</sup> Cf. BRACKER 1989, 149-159 and 165-171.

<sup>20</sup> Seasonalities in trade to some extent arose from the fact, that hanseatic shipping was closed during the months of winter to the effect that travelling to and from London or Bergen was not possible within this particular period of the year. Nevertheless, merchants could send goods to their partners in London and Bergen or could visit these cities as many times as they wanted during the rest of year when the sea ways were open.

<sup>21</sup> See in general MURRAY 2000; STABEL 2001.

<sup>22</sup> Cf. FRIEDLAND 1990; JÖRN / PARAVICINI / WERNICKE 2000.

<sup>23</sup> Cf. STARK 2000; GREVE 2001; GREVE 2002.

<sup>24</sup> Cf. SELZER 2003.

<sup>25</sup> Cf. RÖBNER 2001.

and into account books of exchange agents from Bruges. The members of this group of merchants obviously had key functions as representatives of the *Kontor* in Bruges, and also they acted as financial agents for other hanseatic merchants from Prussia.

For a comparison of the trading practices and commercial habits that can be traced on the markets in Bruges and in Novgorod, one has to consider the differences in market structure between these two extreme outposts of the German Hanse. Products to trade, productivity and the degree of market integration obviously were very different at the western and northeastern poles of the Hanse's realm. The main goods bought by hanseatic merchants in Novgorod were furs and wax. A fur was a non-standardised product of course, so that merchants had to spend time and money for product assessment and quality control.<sup>26</sup> The market supply came from many small producers, because hanseatic merchants were not allowed to operate outside the *St. Petershof* and therefore could not organise a market supply being more efficient for them. The business was done personally in direct contact to the Russian seller of a good, usually with the assistance of an interpreter and that of a second hanseatic merchant, the latter having had to testify the trade. Moreover, the purchasing volume of a single merchant was regulated to certain maximum. In contrast, hanseatic merchants in Bruges purchased goods as linen and cloth that in general were highly standardised products with a producer-guaranteed quality. The purchasing often was executed via local brokers, by whom a high degree of legal certainty could be guaranteed. Regulations of the Hanse's *Kontor* regarding the volume of goods purchased or sold by hanseatic merchants can not be found. As merchants of other geographic origins, too, hanseatic merchants profited very much from the commercial infrastructure provided at the late medieval "world market" in Bruges and from the high degree of integration this market already had reached.<sup>27</sup>

Finally, the markets in Bruges and in Novgorod both were very good examples for how different the financial institutions framing the commercial exchange between merchants could be developed in the late Middle Ages. More or less as a corollary of the hanseatic caravan trade to the *St. Petershof*, financial institutions at the Novgorod market remained severely underdeveloped way into the 15<sup>th</sup> century. Commercial exchange between hanseatic merchants and Russians usually was done in a barter trade or by paying the Russian furs and wax in cash which had to be brought by the hanseatic merchants to Novgorod.<sup>28</sup> As there was no possibility to buy on credit and as banks were virtually unknown, the almost complete lack of finan-

<sup>26</sup> See on the fur-trade DELORT 1978.

<sup>27</sup> Cf. VERMEERSCH 1992; STABEL 2001.

cial institutions that were fully developed by the standards of the time is evident in the far Northeast of the Hanse's trading area. These standards were set at the western border in Flanders, namely in Bruges. There, the hanseatic merchants commonly traded on credit for either their purchases or sales. Cash purchase and cash payments they usually did only in case a cash discount was granted to them. Moreover, the hanseatic merchants kept an account with brokers, exchange agents or merchant bankers, and payments of commercial exchanges in general could be executed via these financial mediators. Thus, via the Bruges market the area of hanseatic trade not only was to a certain degree financially integrated into the late medieval European financial system, this sort of financial techniques that were in use there also were adopted by hanseatic merchants for their internal businesses in the western parts of that area. Cashless monetary transactions were the standard which was used for commercial exchanges of hanseatic merchants between Bruges and Cologne, and it could easily be used for transactions between Lübeck and Bruges as well.<sup>29</sup>

Putting these pieces of evidence together, one can conclude, that the area of hanseatic trade was economically heterogeneous indeed. Regulations exercised by the *Kontore* constraining the merchants' freedom to act were much more relaxed in the West, and vice versa, the degree in which the markets' economic and financial institutions were developed decreased significantly the further northeast hanseatic markets were located.

### **Bridging the gap – strategies of balancing the effects of heterogeneity**

Obviously, hanseatic merchants had to get along with such multiple mercantile environments and had to find ways to balance the impacts this heterogeneity could possibly have on their own economic enterprises. Apart from deploying sophisticated strategies in order to cope with such differences and to overcome the huge dissimilarities in economic development that existed inside the Hanse between the West and the Northeast, they first of all had to bridge the vast geographical distances in the Hanse's realm. Hanseatic trade mainly was seaborne, and the shipping of goods remained the dominant means of transportation also after hanseatic merchants in the western area had substituted a settled and office-based system of trade for the older form of caravan trade.<sup>30</sup> Although the merchants for many destinations did no longer accompany their goods to markets, it was still necessary for them to transmit information between their office in the home town and the distant market places where their goods were

<sup>28</sup> The cash hanseatic merchants brought to the Nowgorod market on a regular basis had also effects on the local economic structure as it was used as raw material for the silver craft that had been established in the city of Nowgorod.

<sup>29</sup> Cf. NORTH 1999.



purchased or sold. As only between Lübeck and Bruges in the 15<sup>th</sup> century a letter took around 20 days to be transferred<sup>31</sup>, one can imagine that apart from having been confronted with heterogeneous mercantile environments, doing business with only little information which probably had already been outdated when getting it, was a rather demanding task. Hence, three strategies or tools are discussed herein, that presumably helped hanseatic merchants to overcome the problems arising from trading in a vast and heterogeneously structured environment.

### *Hedging against the risks of transportation*

Although the seaborne trade was not that much faster in the Middle Ages than the overland transportation was, due to climatic conditions and the threat of piracy it usually was fairly unpredictable and therefore a lot of risk was involved in it. Venetian and Genoese merchants for their trade in the Mediterranean relatively early had developed contractual forms that not only increased for merchants the likelihood of finding risk capital for commercial enterprises, but also clearly regulated responsibilities for such an enterprise and the costs of risk.<sup>32</sup> This fairly similar problem was solved by hanseatic merchants in a more informal and non-contractual manner. In the old-style caravan trade goods had been protected against risky events to some extent by the organisational pattern of the caravan itself. Seeking for this sort of protection presumably was the key reason why in the past all over the world and across all civilizations merchants in early trade had chosen such a caravan trade organisation. Once this caravan trade in many hanseatic regions had been replaced by an office-based form of trade, hanseatic merchants had not like their Italian contemporaries developed a formal sea insurance. Instead, their attempt of hedging against the risk of transportation was done by a more basic form of risk diversification. Usually, hanseatic merchants tried to ship the commodities in a trade sample on several ships, and in case they were also ship owners, they commonly did not concentrate their investment on one ship only.<sup>33</sup> Moreover, these individual strategies of hedging against risk were sustained by general hanseatic formal regulations regarding the liability for the loss and the damage of commodities while being shipped.<sup>34</sup>

### *Standardisation and homogenisation of commercial institutions and cultural beliefs*

The German Hanse and their merchants were pretty much aware, that such a difference in infrastructure, economic and financial institutions of markets was an inefficient and costly fea-

<sup>30</sup> Cf. BRACKER 1989, 564-566.

<sup>31</sup> Cf. SAMSONOWICZ 1999, 211–213. See also LINDEMANN 1978, and still recently SEGGERN 2001.

<sup>32</sup> Cf. Lopez 1971.

<sup>33</sup> Cf. WOLF 1986.

<sup>34</sup> Cf. JAHNKE / GRASSMANN 2003.

ture of their trading system. Thus, a fairly rational strategy to reduce the degree of heterogeneity inside the Hanse and also to reduce transaction costs of commercial exchange was to standardise and to harmonise the various mercantile environments. There were a lot of different attempts to create for the merchants a more homogeneous commercial setting.<sup>35</sup> First of all, the city law of Lübeck had become the dominant city law in the Baltics. Therefore, most of the merchants of the Hanse although coming from many different hanseatic towns or cities acted on the grounds of a commonly known and practised law.<sup>36</sup> Secondly, the Hanse standardised weights and measures for many of the commodities its merchants were dealing with.<sup>37</sup> Thirdly, in the privileges of the Hanse both for Flanders and for Novgorod measures to implement a quality control of commodities were taken. For instance, the wax bought from the Russian producers in Novgorod had to be sealed, either in Novgorod before it was bought by a hanseatic merchant or in the hanseatic town or city where it was sold to another merchant, respectively. Any offence against this rule was regulated with a fine.<sup>38</sup> Interestingly enough, a similar regulation for Novgorod furs has not been set. Nevertheless, the Hanse possessed already a fairly systematic and widely applied regulation of weights and measures and of quality control which reduced transaction costs in terms of facilitating the hanseatic merchants' search for specific products.<sup>39</sup>

A step further ahead on the pathway leading to commercial settings that were more equal to each other was to regulate also the juridical practices in order to guarantee a fair exchange and to enforce commercial contracts. This was done in great detail for the hanseatic merchants trading in Flanders. This statutes encompassed various regulations concerning the liability of merchants and of their customers as well as regulations regarding the competence in case of a law suit and procedural questions. Very similar rules can be found in the hanseatic privileges for Novgorod, too.<sup>40</sup> Regulating commercial exchange between hanseatic merchants and foreign producers, brokers and merchants in that rather standardised way reduced the transaction costs of trade by reducing the costs for contracting and for contract enforcement.

Finally, it should be noted in this subsection, that with shared values and common norms it was possible to create a more homogeneous mercantile setting indeed. The homogenisation of cultural beliefs certainly was not a clear strategy to be implemented, but as hanseatic merchants were present all across the Baltics, it was a rather unintended but nonetheless natural

<sup>35</sup> Cf. JENKS 2005.

<sup>36</sup> Cf. EBEL 1957.

<sup>37</sup> Cf. WITTHÖFT 1976.

<sup>38</sup> Cf. JENKS 2005, 38.

<sup>39</sup> Cf. JENKS 2005, 39. See also LINK / KAPFENBERGER 2005 for detailed description of transaction cost reducing institutions in the city of Danzig.

process that cultural beliefs and practices became more and more equal to each other over time. Shared common values were probably very obvious inside the merchants' families and therefore were spread out across the areas of hanseatic trade with family members settling at market places that were distant to their family's home town. These values obviously materialised in festivities and marriage patterns and in having a good command of the Lower German language<sup>41</sup>, and certainly they were enforced by institutions enabling sociability such as the *Zirkel-Gesellschaft*<sup>42</sup> of Lübeck or the *Artus courts*<sup>43</sup> in the Baltic area.

### *Networking and the potential of flexible acting*

Apart from these attempts discussed above to standardise and to harmonise their heterogeneously structured commercial environment hanseatic merchants found also a rather different way to cope with the considerably high degree of variability and unpredictability of circumstances that was due to this heterogeneity. They formed trading networks of different size, varying density and endurance<sup>44</sup> and only rarely and very lately developed a hierarchical-bureaucratic corporate form of organisation, which was a much more common pattern employed by Italian merchant bankers and trading businesses from Upper Germany.<sup>45</sup> The hanseatic networks were medium-term or long-term cooperations on the basis of informal and only implicitly defined contracts between legally independent merchants who very often were related to each other or were attached to each other through friendship relations.<sup>46</sup> By their commitment to reciprocal trade the merchants could keep transaction, information and organisation costs low and they also had a powerful tool at hand in order to assure themselves against all classical problems related to principal-agency-relationships known in the literature as "adverse selection", "moral hazard" and "hold-up". In addition, the pattern of network organisation enabled the hanseatic merchants to react in a flexible manner to most of the problems the heterogeneity of mercantile environments posed to them.

As a result of non-existent clearly defined hierarchies within traders' networks coordination by hierarchical means in general was not possible. Thus, activities had to be coordinated by culture, trust and reputation, all these being means of coordination which are recommended in the literature on network organisations in order to compensate for a missing hierarchy. Shared common values facilitated mutual cooperation indeed. Therefore transaction costs

<sup>40</sup> Cf. JENKS 2005, 39–40.

<sup>41</sup> Cf. DE BOER et al. 2001.

<sup>42</sup> Cf. DÜNNEBEIL 1996.

<sup>43</sup> Cf. SELZER 1996.

<sup>44</sup> For a more detailed description of these issues see SELZER / EWERT 2001; SELZER / EWERT 2005; EWERT / SELZER 2005; EWERT / SELZER 2006.

<sup>45</sup> Cf. BAUER 1923; STROMER 1968; RIEBARTSCH 1987; HILDEBRANDT 1996; HILDEBRANDT 1997.

remained low. By reciprocal exchange of goods mutual trust between partners could be built over the course of time allowing the merchants to leave the collection and processing of information relevant to sales' operations on foreign markets with their respective partner. Thus, also information costs were negligible. A fair comportment of all network members was enforced in the hanseatic case through a multilateral reputation mechanism.<sup>47</sup> Having a high reputation therefore was essential to all merchants participating in commercial networks, and not losing it was the primary incentive to act fair, because cheating not only defected the relationship with the betrayed partner, it resulted also in a loss of access to the whole network and undermined all other possible partnerships for the future. By implementing a multilateral reputation mechanism the problems of free-riding and of controlling agents were solved such that reciprocal trade without having formal contracts was a viable mode of commercial exchange inside the Hanse. This in turn allowed to keep also organisation costs within the networks at a low level.

As the reputation of trading partners was well-known to everyone in the network, choosing a wrong partner was unlikely in this framework. Through the threat of losing their reputation partners involved in a commercial exchange relationship were encouraged to act primarily in the other partner's interest, this comportment minimising the risk of moral hazard. The same threat of losing reputation prevented the merchants also from taking advantage of a possible "hold-up-position" they principally would have gained due to the investment that their trading partners had made by sending goods to them. Because of the reciprocal design of commercial exchanges each party held the other's goods and could use these at any point in time as a security asset in order to face a "hold-up" by the partner.

The networking strategy probably was of most valuable economic benefit to hanseatic merchants in terms of the high degree of flexibility they could gain from it while at the same time having chosen an organisational pattern with only moderate costs. Due to the reciprocal pattern of cooperations with employing partners as commercial agents mutually, this implying each partner's expertise of the type of good traded on their home market, hanseatic merchants could afford not to specialise in trading particular commodities only. It was the fairly lean governance structure of these reciprocal exchange relationships that enabled hanseatic merchants to operate in the poorly developed market in Novgorod as well as in the highly inte-

<sup>46</sup> Cf. SPRANDEL 1984; STARK 1993.

<sup>47</sup> Sociability enabling institutions played a key role for the multilateral self-enforcement of fairness through reputation, because information on the reputation of other network members could be distributed across the whole network starting from there. See for this SELZER 2003, 84 and 96–97. The multilateral reputation mechanism with respect to its function within the interaction of hanseatic merchants with foreign rulers is explained in GREIF / MILGROM / WEINGAST 1994 and in STREB 2004.

grated market in Bruges. And it was because of the relatively small size of their enterprises, why hanseatic merchants could engage in the Novgorod barter trade, but also could be involved in the commercial exchange going on at the Bruges market with its complicated cashless financial transactions. Finally, the network pattern made hanseatic merchants profiting from the supply of goods at the markets of Bruges, London, Bergen and Novgorod, since the commodities traded on these markets could easily be reached via relatives or friends living there. In turn, exactly these relative stable kinship- and friendship-based relationships with commercial partners at distant locations in the hanseatic trade area and at the *Kontore* in Bruges, London and Bergen allowed hanseatic merchants to handle their commercial exchange in an individually well-defined environment even in times when trade policies or regulations of the Hanseatic League might have interfered in that trade.<sup>48</sup>

## Conclusions

As has been shown above, hanseatic merchants were confronted with a great deal of heterogeneity concerning their trade during the 14<sup>th</sup>–16<sup>th</sup> centuries. They handled a variety of goods and products meaning that in their daily work they had to acquire a lot of product-specific knowledge or at least had to rely instead on someone else's expertise on these commodities. They also were exposed to the multiple organisational levels of the Hanse, this mainly having been the *Kontore* in the cities of Bruges, London, Bergen and Novgorod and the political organisation of the Hanseatic League. Finally, they had to operate their trade in mercantile environments that showed tremendous differences, a whole range from highly integrated and very efficient markets with well developed juridical and financial institutions in the West to very inefficient and poorly developed markets in the Northeast.

The hanseatic merchants' answer to this challenge of heterogeneity was threefold: Firstly, maritime trade was virtually the only viable way to bridge the huge distances in the Baltics and in the North Sea. The transportation risks involved in this sort of trade were tried to be minimised by both individual non-formal and corporate formal solutions. Secondly, hanseatic merchants attempted of course to standardise and to harmonise the different mercantile environments they were operating in. Both the standardisation of weights and measures and the harmonisation of juridical regulations and cultural beliefs could help to reduce the transaction costs of hanseatic trade. But finally, the merchants involved in the internal hanseatic trade also maintained a rather simple form of reciprocal and informal cooperation between partners at distant locations, which allowed them to operate cost-efficiently and, at the same time,

<sup>48</sup> Cf. SPRANDEL 1984, 31–32.

made them to be suited to either a very sophisticated level of market development as in the case of Bruges or to a rather poorly developed market as in the case of Novgorod. And given the fact, that the strategy of forming trading networks and therefore staying flexible was of an enormous benefit to hanseatic merchants, this rather simple and seemingly old-fashioned looking business style should be considered as a key tool for merchants to balance the effects of heterogeneity. So, it was by harmonising the context, but remaining flexible concerning the individual opportunities to trade, that hanseatic merchants to a certain degree could very well bridge the gap between the various mercantile environments that existed inside the Hanse.

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