Chapter 5:
THE EMERGENCE OF CORPORATE MERCHANT-BANKS IN DUGENTO TUSCANY

John F. Padgett
The Emergence of Organizations and Markets
Commercial revolution of the 1200s
(Lopez, Sapori, de Roover)

-- rise of sedentary merchants
  -- before, in fairs, merchants moved with goods
  -- branch offices (*filiali*), connected through writing
  -- central account book (*ragione sociale*)

-- legal and social continuity through time
  -- the medieval *corpo*-ration (*società*):
    obligations transcend businessman himself
  -- often rooted in patrilineage

-- examples: Bardi, Peruzzi, Scali, Bonsignori merchant-banks

I studied letters in papal registers and writs in English Liberate rolls.
New organizational form = Medieval corporation

Before: Champagne fairs
   -- seasonal migration of textiles and merchants
   -- money-changers to settle coin payments at end of fair

After: Italian sedentary merchants
   -- geographically dispersed offices with (often related) partners as branch managers
   -- moving goods, not merchants:
      letters/orders for textiles, and bills of exchange for money
   -- corpo = startup capital = the body of “corporation”
Cultural foundations: 
the medieval meanings of “corporation”

Business becomes body (corpo), like family and church
   -- no longer just individual merchants and their contracts

Multiple medieval meanings of corpo:
   -- partners’ start-up capital, but with
   -- legal continuity through time,
       like church as body of Christ
   -- unlimited liability, through patrimony of family

Practical implication for operations:
   -- single centralized account book (ragione sociale)
       -- possibility of written rolling credit
Mechanism of Organizational Invention: Incorporation and Detachment

In overview:

I. Incorporation = Market into Church
   -- Pope coopted Tuscan merchants from Champagne fairs into papal administration,
   -- in order to collect military levies for Italian crusades.

II. Detachment = from Church to England and new trade
   -- Tuscan merchants later leave Pope to work for King of England and to trade and process wool.

Thus international finance emerged out of organizational hybridization of merchant fair with Church.
Consequences of Incorporation

Organizational consequences of continued old roots in fairs:
-- much liquid money
-- techniques: contracts, partnership, deposit accounting

Organizational consequences of new incorporation into Church:
-- merchants become one wing of crusade militia,
    in “body of Christ procession” to heaven
-- sedentary geographical imprinting:
    merchants become banking adjuncts of bishops,
    in order to get their loans back through church admin.
-- organizational concepts of corpo and office
-- business orders now in written letters,
    like papal bulls themselves
Organizational Birth through Italian crusades

Military

Crusader army

WAR with Holy Roman Emperor

Religion

Church

Detachment

Incorporation

Economy

Tuscan merchant-banks

Champagne fairs

catalysis: companies into families

Kinship

patrician families

new-man families
Figure 2. Total Number of Papal Bulls, 1243–1268
Figure 3. Number of Bulls Mentioning Italian Bankers

- Number of Bulls Mentioning Italian Bankers
- Bonsignori Company Subset
Organizational Spillover through Detachment

So much for Pope’s creation of temporary organizational novelty, now how did that novelty spill over into transforming international finance and trade?

Answer best explained through sequence diagram:

-- first transposition to King of England, which triggered
-- a second organizational novelty: English customs
-- allowing Tuscans to hijack English wool from Flanders
to build Florentine textile industry
Autocatalytic Spillover

Charles of Anjou
mercenary

Pope

old levies
fifths

Tuscan nobles
patrilineage

King of England

English army
feudal levies

Tuscan merchants

loans

English customs

Champagne fairs

wool

Flemish textile manufacturers

Florentine textile manufacturers

Papal assets (bishops)
papal administrators

Tuscan merchants

recruitment

customers
(merchants + wealthy)

textiles

wool textiles

5

m-b

m-b

4

1

levy

1

crusades

m-b

2

patrilineage

loans

English assets (vassals)

wool

wool

wool

wool

= resource flow

= organizational link
Final autocatalytic spillover into kinship: Florentine patrilineage

Not “family into company” but “company into family”:
-- cf. Thomas Blomquist (contra Sapori)

Merchant new men (and their syndicates) turned themselves into noble patrilineages
-- using plastic social form of consorteria
-- with recognition and support from their new customers: Church, bishops, kings and aristocrats

Italy thereby moved onto separate evolutionary trajectory from France and most of Europe:
-- merchants and nobility blended, not segregated
General Conclusion

Inventions of new organizational forms in Padgett & Powell book are generated through

A. Recombination of multiple types of social relations across multiple-network domains
   -- We call this innovation
   \textit{plus}
B. Reproduction through autocatalytic spillovers that tip networks in those domains
   -- We call this invention

This is social-network perspective on evolution.