

## ***Commission trading and the transformation of Florentine business organization during the sixteenth century***

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Florentine firms present in the big commercial centers of the early modern era were known for their capacity to gather quantities of capital, enabling them to undertake international ventures, to make loans to private individuals and, above all, to the religious and political authorities of the times. However, the staff and capital they relied on was less than their counterparts of Upper Germany like the Fugger, the Welser or the Haug, who were involved in the same activities. This is due to the fact that most funds invested by Florentine businessmen in commercial ventures, banking and finance, came from outsiders. Although external participation in their share capital did play an important role in the creation of many Florentine companies in the 16<sup>th</sup> century, especially with the development of *accomandite*, these investments alone could not have sustained the enormous scale of their activities.

A cursory review of the account books of 16<sup>th</sup> century Florentine firms reveals commission trading to be another crucial factor in the increase of their business. Commission accounts, indeed, occupy a growing space in the registers of Florentine companies, especially those located in international marketplaces such as Lyons and Antwerp. As commission agents, the Florentines in these commercial centers worked for principals (*committenti*) located elsewhere, who provided them with capital or merchandise to trade, in exchange for a fixed percentage on each transaction. Thus, the volume of the share capital of companies working mostly on commission was less important for their success than their reliability and skills as providers of commercial and, above all, of banking services. Until now, W. Brulez has been the only scholar to have emphasised the development of commission trading in the sixteenth century. According to him, it was related to the arrival of new entrants, the Flemish merchants, on the European scene. Though short on capital, these men were rich in expertise and initiative. The consequential, gradual opening of international trade to new participants, who were not part of the old mercantile aristocracy, is incontrovertible. In the fullness of perspective, it seems that not only small businesses, but even the most powerful benefited from the commission system.

We shall now proceed to examine how the development of commission trading influenced the evolution of Florentine forms of organization and enabled Florentine businessmen to maintain a dominant position in the changing economic context of 16<sup>th</sup> century Europe. Our review is based upon a study of the commercial activities of the Salviati, one of the most powerful banking families in mid 16<sup>th</sup> century Lyons, at the height of its prosperity. The Salviati of Lyons worked mostly as commission agents, and also had recourse to other commission agents to perform the business they did on their own account. Both roles were indeed interchangeable in early modern times. Quite often, the same commercial partners acted sometimes as principals and sometimes as agents in different transactions. This versatility allows us to study commission trading from both perspectives, on the accounts of a single firm. We shall first examine commission trading from a formal point of view, through an analysis of the construction and maintaining of business relations. More functionally, we shall then examine the commission system as a factor of the flexibility of Florentine firms and their responses to the changing context of international trade.

### **Criteria of selection of commercial partners and clients**

Many historians have underlined the importance of socio-cultural factors, such as common beliefs and practices as vectors of trust among economic agents, and as means to consolidate business relations. The Salviati case, however, provides a more complex perspective. The reconstruction of the network of operators who dealt with the Salviati on commission basis not only shows their preference for compatriots when it comes to commercial partners, but also reveals a great diversity among investors who commissioned the Lyons bankers to make their money grow.

Florentine businessmen certainly dominated the group of commissioners. In the 1540s, the Salviati had 63 commissioners (27 Florentines), who handled 80% of Salviati's total assets – being mostly exchange transactions and, occasionally, merchandise trade. For the business they conducted in Florence, the Lyons branch of the Salviati firm relied exclusively on its headquarters. In Rome, their main agents were two other Florentine firms, the Della Casa and the Montauti. In Spain, the Acciaiuoli, the Antinori and the Strozzi were their main commissioners, while in Venice, they were the Strozzi. In a context where Florentines were the tenors of international trade, a network of agents dominated by Florentines was naturally neither limited in geographical area nor in the sectors of specialization. Florentine businessmen were settled all over Europe in the main commercial centers as well as the most remote areas and were involved in a wide range of all of fields, such as exchange, merchandise trade, insurance,

finance. The homogeneity of their common origin, common background, common political interests and intermarriages, increased the means of mutual pressure and raised their economic performance. Nevertheless, the Salviati success did not rest on this homogeneity alone. As a matter of fact it was reinforced by a network of diverse collaborative and mutually beneficial business relationships. In Antwerp, for instance, where the Salviati temporarily opened a branch at the end of the 1530s, their main commission agent previously and subsequently was the prominent Cremonese firm of the Affaitadi, and they also often had recourse to the services of the Lucchese firms of the Burlamachi and the Venetian firm of the Fagnani. In Spain, the Milanese Dadda of Valencia and the Valladolid branch of the Fugger were among the Salviati's most important agents. Additionally, important Spanish operators such as the Santa Cruz and the Salamanca, also often worked for them.

However, it is in the network of the Salviati bank *committenti* that the importance of the extra-Florentine and even extra-Italian component really appears – especially in the field of deposit banking. In this sphere, the Salviati benefited mostly from funds invested in their bank by prominent businessmen of Jewish origin – such as the Mendes, the Nuñez and the Henriques brothers – who sought to protect their fortunes from Charles the V's attempts to requisition it by exploiting the instrument of heresy accusations. After the forenamed, the Lyons Salviati bank's most important creditor was one Bartolome de Paretès, a Catalan businessman settled in Avignon. In Florence, on the other hand, Salviati family kindred, closely connected to the Medici played a less important role as depositors than well-known *fuorisciti* like Giovan Battista di Cosimo Strozzi or Giovan Battista Bonsi. Prominent German and Swiss financiers settled in Lyons at the time, such as the Welser, the Herwart and the Zollikofer, also provided the Salviati bank with massive capital. Finally, Lyons merchants involved in international trade, such as grocers, booksellers and drapers, deposited credit in the Salviati bank to secure their purchases. These non-Florentine “silent partners” enabled the Lyons Salviati to attain a significant level of independence from their city of origin and headquarters in the matter of business capital. This autonomous commercial dynamism gave them a dominant position on Lyons marketplace. The money lent to them by external *committenti* was, for the most part, lent to Italian exchange partners in Lyons who, in effect, became their “clients”.

Although the cultural background of these silent partners was rather fluid, there was a clear preference for businessmen. The Salviati explicitly sought to collaborate with rich and powerful merchants rather than princes and noblemen whom they deemed to be poor payers and ignorant complainers. It is therefore not surprising that we find almost no members of the local feudal

aristocracy or clerics among their clients. Ethnic considerations, on the other hand, almost never entered into account in their evaluation of potential partners or clients. The Salviati recommended the services of Spanish merchants of Rouen and of German merchants settled in Castilla to their correspondents, and did not hesitate to warn them against previous Florentine partners who, according to them, were not trustworthy.

Despite the existence of socio-cultural bias conditioning the choice of partners and clients, the efficiency of the commission agency rested upon interdependencies between actors of different origins and levels. Most of the Salviati bills addressed to their principals were bought by or sold to members of rival merchant communities on the marketplace, e.g., the Lucquese and the Genoese, who were very often payers of the bills drawn in favor of the Salviati by their principals, or beneficiaries of letters paid by the Salviati in the name of their principals. Similarly, when the Salviati were in need of transferring funds to Paris, the still feeble development of Italian networks in that city forced them to buy bills that French merchants of lesser stature drew on their correspondents there. In fact, success in the commission business rested, *interalia*, on diversity of collaboration.

### **Plasticity of the commission mandate**

The clauses of commercial mandates were not fixed. The partners decided the rate of commission to deduct, which was not necessarily uniform. Exchange operations were generally charged at 1 to 3%, while merchandise transactions were charged at 2%. Rates also varied within these categories. For instance, the Salviati would give a 1% discount on their commission rates with certain privileged partners and at times they did not charge any commission at all. Even when commission rates were decided beforehand, often, the modalities of their implementation were not. The commitment instructions could be precise in their phraseology but frequently the commissioner would enjoy autonomy in the determination of price and merchandise evaluation. Usually, the principal would simply ask for the “best possible deal”, and the Salviati would market the merchandise on “free commission” – that is to say, determining themselves the modalities of sale. Ultimately, however, sales and purchases of bills and merchandises had to be transacted at the best possible price within a specified time frame. Sometimes, the Salviati would precisely stipulate the rates of bills to be drawn or remitted for them, and the marketplaces where they had to be sent. More often, however, they would indicate “dead zone” (unacceptability) limits of prices, exchange rates, and alternatives between different marketplaces, leaving final determination to the commissioner. Several examples from

the Salviati registers demonstrate that it was in the principal's interests to allow the commissioners a margin of discretionary autonomy.

Disparity in price fixation systems was an important factor in commercial misunderstandings. For instance, the Salviati experienced difficulties marketing Portuguese spices in Lyons for Burgalese merchants accustomed to the stable conditions of the Antwerp market, their main centre of distribution, where the spice trade was managed by a monopoly. The Burgalese merchants would expect to receive Antwerp prices for their spices, oblivious of the competitive factors that Portuguese spices in Lyons had to compete with Venetian spices, and that not only Italians, but also French merchants of Rouen were selling them. The Salviati would try to market the pepper as quickly as possible, between successive deliveries from Brittany, but to retain their ginger until the depletion of Venetian stocks. Similarly, the Salviati Spanish suppliers would unrealistically pressure them to incompatible sales strategies on the basis of commercial expectations derived from the Antwerp market place. Consequently, the spices would often end up being sold at discount in periods of market saturation. It is obvious therefore, that such volatile market conditions necessitated that the principals trust the expertise and marketing discretion of their agents.

Other important factors requiring that discretion be vested in the commissioners, were rapid fluctuations of the money markets and absence of fluidity in economic information. A case study in point is that of a triangular arbitrage – an arbitrage being a simultaneous buying and selling at different locals, in order to capitalize on market price differences – ordered by the Salviati to their Antwerp commissioners in November 1548. The Affaitadi were to draw approximately 10,000 crowns on the Salviati Lyons bank, before remitting them on the Castilian fairs. A few weeks later, however, having learnt that payment periods in Castilla had been prolonged and consequently anticipating “largheza” (abundance of money), the Salviati, through an urgent written missive to the Affaitadi, cancelled their commission. This unforeseen event jeopardized the profitability of their arbitrage and even threatened losses. The Affaitadi received the cancellation order too late, after having drawn and remitted the money from Antwerp. However, they took the liberty of slightly modifying the “route” planned by the Salviati, remitting a part of the money drawn on Lyons not from Antwerp, but from London, where they both had agents. Resultantly, though the profit was less than initially expected, nevertheless the Salviati still managed to make the best of their money in the circumstances. Organizing a fresh arbitrage on such short notice would have been impossible for them and leaving their money on deposit in Lyons would have yielded a rate of profit inferior to the rate they received thanks to the Affaitadi. This case study demonstrates the merit of an agent's

reliability combined with the principal's trust in securing the profitability of trade on commission as embodied in the "free commission" mandate.

### **Means of control and guarantees**

In light of the aforesaid autonomy of the commissioners in their management of their principals' monies, it is important to identify how those principals secured their interests and ensured the loyalty and diligence of their agents.

Information was crucial in determining the reliability of an agent. In the first place, resort to commission trading was premised upon the businessmen's prior knowledge of and familiarity with their agents, before entrusting their assets to them. The business correspondence of the Salviati reveals the hearsay nature of the merchant network or of a particular firm, on which the general opinion was based. Understandably, rumors of solvency could establish or ruin the credit of a commercial house. Secondly, the fluidity of economic information limited the opportunities of fraud. For example, the Lyons currency exchange rates being widely known in all European cities immediately after being established at the fairs, precluded the possibility of the Salviati to dissemble as to these rates. The same was true for the merchandise trade, where lists of prevalent prices were circulated through business correspondence. The need for using chains of intermediaries in long-distance trade also allowed for verification of the agent's reports: a commissioner could not pretend to have received late delivery of merchandise, without leading his principal to seek verification from the transporter(s). Generally, businessmen often had several commission agents at a specific marketplace, thereby generating a network of information and verification of information. There was not a single marketplace where the Salviati were limited to a single agent. In some of their letters, they complained that their agents had sold or bought bills for them at unfavorable rates of exchange while, to their knowledge, the market conditions allowed better profits. In fact, the Salviati ordered the same arbitrages to different firms at the same marketplace. This enabled them to compare the results obtained by their different agents and monitor them.

The circulation of individuals between firms and the sharing of their social capital also strengthened monitoring and control. The exchange of young between firms typically illustrates this feature. Apprenticeship in the houses of commercial partners helped a merchant's sons or nephews to learn the "tricks of the trade", while becoming familiar with the customs of a specific marketplace; it also gave their parents a direct source of information about the activity of their commercial partners. The level of trust and interdependence between partners determined the treatment of apprentices. In accommodating the sons of such commercial

partners, the Salviati paid small wages to them; but in adopting other apprentices they would expect payment for the training they would impart. There was fluidity of movement of employees and agents between firms. Some of the Salviati's suppliers would send their merchandise to Lyons accompanied by their own personal, in order to look after their interest and ensure that their orders were being followed. Such was the role of Giovan Battista Rustici, a young member of the Rustici family, who was in charge of the sale of his parent's silk in Lyons and other French cities (Paris, Tours, Poitiers, etc). It also appears that when the Salviati started to deal with a new company, the employees and the members of the family firm tended to become new clients or commercial partners in the following years. These practices led to an interconnection of commercial interests which enhanced intensify the cohesion of the commission network.

Additionally, principals could utilize a liability clause to secure the commission mandate by rendering the agent liable for any loss to third parties. This clause was termed a *del credere* and derived from the ancient Roman law. It was beneficial to principals, not only because it prevented the frustration of any contract concluded in their names, but also because it encouraged commissioners, who became guarantors of the quality of their performance – in the event of failure by third parties, they would lose a lot more than just their commission. The *del credere* played a fundamental role in securing business. In the field of exchange, it was the guarantee given to principals that commissioners would ensure the payment of bills acquired for them in exchange of a 1‰ increase in the commission fee. The *ricordi* books of the Salviati offer a complete list of *del credere* granted to the Salviati by their agents. These documents enable us to observe the great flexibility of this specific clause, which adapted to the financial capacities of agents and the specific needs of principals. Its conditions of application varied from case to case. The Affaitadi of Valladolid agreed to guarantee 5000 crowns per fair for the Salviati during a particular year. The Santa Cruz and the Salamanca guaranteed all bills they bought from Spanish merchants. The Botti & Bellotti of Milan insured letters they bought at a higher rate than those they sold, etc. We can well imagine the risk that the *del credere* represented for commissioners. Providing it to principals required an insertion into efficient and dependable merchant networks, where it was easy to find “good letters”. Reciprocity of services was often required.

When conflicts occurred despite all the precautionary measures available in the commission agency, it seems that social status of the parties played a decisive role in their resolution. The Salviati were particularly well placed in this respect, and made effective use of their social status. “We are not people who have to deal with justice” (*non siamo persone che*

*abbiamo a fare a giustizia*) was their answer to the threats uttered by an angry French cleric who refused to pay them commission fees. In fact, most of their disagreements with principals were solved amicably on account of the Salviati position of power on the European scene. Inside the French Kingdom, the direct and indirect relations of the Salviati with members of the Court was very useful. For instance, in 1546, the French merchants of the Atlantic coast complained to the king against Portuguese spices diverted by Italian businessmen to Lyons. They wanted to restrict the entry of spices into France, overland through Amiens and overseas through Rouen. The Salviati, “through friends”, blocked the ratification of this amendment, doing the Italian merchant community of Lyons a great favor. This Salviati influence in the corridors of power was crucial in other countries as well. Averardo Salviati, the head of the firm, for instance, did not hesitate to contact Cosimo I when Spanish admirals seized some of his cargo. The Rota of Barcelona ended up ruling in their favor against their own compatriots. When the Spanish admirals appealed, the Salviati had recourse to the powerful Pedro de Cassador of Catalogna, (for whom they worked from time to time), and won yet again.

Even if principals could never completely protect themselves against fraud, different types of devices enabled them to minimize risks. The notion of uncertainty, often applied to the functioning of early modern market, does not seem to be a feature of commission trading as revealed through the Salviati documents.

### **Adaptability of firms**

Despite unavoidable tensions between principals and agents, the use of commission agency offered Florentine firms of the 16<sup>th</sup> century substantial flexibility and a capacity to adapt to the new structures of the European economy.

To be profitable, trade on commission had to take place where the demand for merchandise and capital was very high. In the 16<sup>th</sup> century, the enormous increase of the wealth of Spain due to precious metals from the “new world”, and the geographic parceling out of the Hapsburg Empire, created a demand to transfer funds from Spain to the Low Countries. The development of exchange fairs in Lyons and in Besançon, which was partly due to the Spanish effulgence, brought international merchant-banking into a central system. These circumstances made trade on commission, and especially exchange on commission far more profitable than it had ever been, and it is not surprising that this activity occupies a growing space in the account books of Florentine firms active in Lyons (Salviati, Martelli) and Besançon (Capponi, Corsi) during the 16<sup>th</sup> century. An analysis of the Salviati’s commission accounts show that, while owning capital of only 20,000 crowns, they handled on average 3,600,000 crowns per year

purely for the exchange conducted on commission. In this field, their average profit was approximately 9,000 crowns per year, which was almost half their share capital. The efficiency of the postal system, which, in Lyons, relied on bank couriers controlled by Florentines, was a *sine qua non* for commission trading. Since principals were, for the most part, located in places other than the funds or merchandise whose circulation they organized, the generation of orders and reports was multiplied. At that time, only central marketplaces such as Lyons offered the requisite infrastructure.

Not only did commission agency allow Florentine businessmen to respond to the highly focussed demand of fairs, it also helped them in adapting to the rapid fluctuations of such marketplaces. Despite limitations of their share capital, the Salviati gathered approximately 500,000 crowns per year through deposit banking. The deposits made in their bank were not only due to the sizable commercial activity taking place during the fairs, but also to the advantage it provided creditors to obtain capital in a marketplace that was an international clearance center. In effect, bills of exchange for other places were easily available in Lyons, enabling depositors to transfer their funds wherever and whenever required. This opportunity perfectly answered the requirement of investors, such as the Mendes, who needed to keep their capital in motion because of prevalent threats. The confidentiality maintained by Florentine firms working on commission, who didn't reveal the identities of their clients (even in their own account books) provided such investors with additional security. Funds deposited by the Salviati were readily re-invested in the marketplace, and mostly re-injected into international trade – most depositories being exchange partners buying or paying bills destined to or originating from Florence, Rome, Antwerp, London, Medina del Campo, etc. Despite their limited share capital, the Salviati were among the first financiers of François Ier, and advanced to him sums ranging from 1,000 or 2,000 to 80,000 crowns per fair, using almost exclusively capital of their *commitenti*.

Several examples of rapid reconfigurations of commercial activity according to market fluctuations is found in the Salviati registers. The above-mentioned Affaitadi arbitrage is one such example – the change of plan that enabled the Salviati to make a profit, was rendered possible by the presence of a common agent in London. Other examples are available in the merchandise trade. During three years, between 1544 and 1547, the Salviati started selling silk on commission for suppliers with whom they formed a sub-company. Despite the high rates of profit on luxury products such as silk, the problems encountered by the Salviati in the distribution process (such as demands for extension in payment period, difficulties of disposal, theft etc.) lead to a premature withdrawal of their suppliers and to the closing of the sub-

company. Nevertheless, this unexpected event did not affect the general course of their business. Instead of selling finished silk the Salviati switched to raw silk and clinched their hold on the fur trade, which already had provided them a stable source of income. A similar strategy of adaptation was adopted in the sale of Portuguese spices. After two unsuccessful attempts to import portugese spices through Castilian merchants, the Salviati again shifted their focus to Venetian spices, while routing their Portuguese spices through Rouen. The commission system enabled them to preserve their independence in the matter of suppliers and agents. Changing commission partners was always easier and cheaper than closing a branch.

The commission system also facilitated the flexibility of the Florentine partnership system (*sistema di aziende*). Almost 80% of the revenues earned by the Salviati in Lyons came from business they made for operators outside the family enterprise. The prosperity of the Lyons branch and of its headquarters depended more on their relations with outsiders than on their collaboration *inter se*. This situation enhanced the Lyons branch's autonomy. Pocketing their profits, the main Florentine investors or heads of the firm (the "maggiori") watched over the activities of their Lyons branch from a distance. They could not in any case have been directly involved in its everyday management, which was left to governors, who were often members of independent firms and who charged the *maggiori* commission fees when they completed transactions on their behalf.

Finally, commission trading helped businessmen liberating themselves from the grip of a single power. The Salviati accounts reveal that they served the main political players of the time – whether in power or in opposition. They were the French king's main financiers but were also involved in papal and imperial finance, transferring ecclesiastic funds from Spain to Rome and lending money to the Pope's bankers, while secretly transferring species from Lyons to Antwerp via Paris (despite the King's official interdiction). Here again, they acted mostly as credit intermediaries.

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The development of commission trading explains the relatively small size of Florentine firms active in 16<sup>th</sup> century Europe. Outside Italy, the Salviati firm was present only in Lyons and, temporarily, Antwerp. About the same time, the Capponi had branches in Lyons, Venice and Rome; and the Martelli in Lyons and Medina del Campo. Specializing in services, the Florentines needed to maintain their presence in only a few international marketplaces to ensure their accretion of wealth. Being relatively small limited neither the fields of activity nor the

geographic coverage of these firms. Through commission agency, the Salviati bank was involved in enterprises involving several marketplaces: capital placed on the exchange market was enabled to circulate between ten marketplaces before returning to its point of origin. Merchandise imported from the Levant could be insured in Pisa, delivered in Lyons before being sent to Antwerp to be sold on the account of London merchants.

While German firms of the 16<sup>th</sup> century and Florentine firms of the 13<sup>th</sup> and 14<sup>th</sup> centuries controlled the marketing of their goods from production to sale in distant markets through an extensive network of complementary industrial and commercial companies, the commission system allowed 16<sup>th</sup> century Florentine firms to seize any opportunity as and when it occurred. With minimal investment, they were able to earn substantial profits. Commission trading enabled them to achieve and maintain a central position in international trade of the 16<sup>th</sup> century, and to fully exploit the significant changes taking place in the European economy. The necessity of adapting their commercial strategies to the intense and fluctuating demand of main commercial hubs would not have been possible with rigid forms of organization or excessive control by the heads of firms. This explains the decentralization of Florentine partnerships active in 16<sup>th</sup> century Europe and what, perhaps, was the dawn of services economy in Europe.