

Peter Wardley breathes new life into an old debate with this examination of the key features of the development of large-scale enterprise during the period 1890-1921. His summary of recent research challenges the traditional conception of British business as small-scale and entrepreneurially deficient by comparison with American or German industry.

The Emergence of 'Big Business', 1890-1921

'Big Business' is a major feature of our modern world [7]. Large business corporations account for major shares of output, employment, investment and trade in both developed and less developed economies. This article reviews five aspects of big business during the crucial thirty years of consolidation between 1890 and 1920: the large corporation as a feature of the international economy; the role of business leaders; the managerial revolution; company law; and, finally, the size of Britain's large companies relative to those in Germany and the USA. The beginning of this period is marked by the merger movement, whereby firms were amalgamated to create large manufacturing corporations, a phenomenon most apparent in the United States but also important in Britain and Germany [1,3]. It terminates in the consequences of the chaotic economic aftermath of the First World War.

'Big Business' and modern economic growth

Recent research in business history has highlighted the importance of early twentieth century corporate growth not just in manufacturing, but also in the primary sector (iron ore, coal, oil) and in services such as finance, transport and communications [13]. Contemporary recognition of this tendency was largely restricted to critics of capitalism, including Rosa Luxemburg, Nicolai Bukharin and V.I. Ulyanov (Lenin), who wrote of 'Monopoly Capitalism' and of 'Imperialism' as the highest stage of Capitalism. Meanwhile, mainstream economists continued to analyse both firms and industries using the model of perfect competition which assumed competitive markets consisting of small firms which lacked market power. By 1914, however, the development of 'Big Business' already suggested it would become the universal and all-pervasive phenomenon which exists today in the form of the 'Global Economy'.

Large-scale corporations were prominent in Britain, Germany and the

USA - the leading economies of the early twentieth century. Yet there were significant national differences. In the United States, a small number of very large companies emerged in specific sectors which eclipsed their business rivals. Although much remarked upon, this handful of newly emergent corporate giants remained atypical of the generality of American firms; among these corporate giants were United States Steel, American Telephone and Telegraph, American Tobacco, Pennsylvania Railroad and three insurance companies, the Equitable, Mutual and New York Life. In Britain, the rapidly expanding Co-operative Wholesale Society, jointly owned by the co-operative retail societies and one of the Britain's largest employers and a major manufacturing enterprise in its own right, was unique. In Germany the major banks were significant holders of industrial shares, which gave them a direct interest in large manufacturing firms such as Krups and the German railway system was under state control.

As these examples demonstrate, the large-scale corporation was not confined to any one sector or country. Finance, engineering, communications, transport, retailing, and insurance all displayed examples of 'big business'. Even in France, Spain and Russia (frequently regarded as relative laggards in the development of the large corporation), large industrial, finance and railway companies emerged before the First World War. Underlying these common trends was the high degree of

Peter Wardley is principal lecturer at the University of the West of England, Bristol and Director of the Bristol Historical Databases Project. In addition to continued research into the emergence and consolidation of 'big business' and numerous publications in the field of business history, he has made a significant contribution to research and teaching resources using information technology. Further details of these resources are available from the website for the Bristol Historical Databases Project at:

<http://humanities.uwe.ac.uk/Regionhistory/bhdp.htm>

integration of each country into the world economy. Indeed the large international flows of labour, commodity trade, service provision and capital investment highlighted this interconnectedness and the mutually reinforcing development of the major economies before 1914.

Business leaders

The individuals who owned and directed the early large-scale corporations achieved fame and recognition throughout the world for their economic achievements; conspicuous examples here include Henry Ford, Paul Getty, Friedrich Krupp, William Lever, Michael Marks, J.P. Morgan, Walter Rathenau and Werner von Siemens. Microsoft's Bill Gates is only the most notable recent addition to this long and lengthening list of capitalists, of renown or notoriety, who have moulded aspects of our lives.

In addition to their obvious economic significance, the broader social and cultural impact of business leaders was profound. In Britain, numerous new communities, carefully planned with social amenities and hygienic housing conditions, were built in the vicinity of factories on estates such as Lever's Port Sunlight, Cadbury's Bournville and Reckitt's Garden Village in Hull. These investments in local infrastructure may have been prompted by an employer's belief that they would increase the efficiency of labour but, as David Jeremy has shown, religious beliefs contributed significantly to the personal motives of business leaders who acted to improve living conditions and provide amenities including libraries, clinics and parks [9].

Some business tycoons are recalled, though sometimes not remembered personally, for the disposal of their wealth rather than its source. Profits made by Tate & Lyle's sugar refineries in the late nineteenth century, were bequeathed by Henry Tate to found the Tate Gallery in 1897. Others established philanthropic foundations, which helped to mitigate their less attractive business reputations. Scottish-born Andrew Carnegie, a notably wealthy capitalist who played a major part in the extraordinary growth of the United States iron and steel industry in the last twenty years of the nineteenth century, is the foremost example of a businessman whose enormous fortune subsequently financed a variety of charitable causes. However, despite his enterprise in benevolence, which included bequests to universities, thousands of public libraries and the Carnegie Peace Foundation, Carnegie never shook off his reputation as a ruthless employer after bloody picket line confrontations during the Homestead Strike of 1892 [8].

The Managerial Revolution

Although the personal philanthropic achievements of these 'captains of industry' were remarkable, of even greater long-term significance was their development of new systems of administration and management which they put in place, methodically and deliberately, to co-ordinate their expanding businesses. In his pioneering study of this process, Alfred Chandler suggested that by the middle of the twentieth century corporate planning had transformed American capitalism to the extent that managers of large-scale multi-plant businesses had supplanted the co-ordinating function of the market [4]. Within the large company it was the central administrative office, manned by senior managers, which co-ordinated a hierarchical structure comprised of functional departments (e.g. production, sales, R&D, etc.). This corporate structure was most prevalent in industries where there was a mass market, where large capital investment was necessary, and where it was possible to capture economies

of scale, in either production or distribution [5].

More recently, Chandler has suggested that a tripartite investment strategy was essential for the creation and development of the modern big business: this encompassed production facilities, marketing and distribution and, last, but far from least, the managerial staff required to co-ordinate activities within the company and to plan for its future. He also judges that this strategy was most successfully implemented in the United States as 'competitive managerial capitalism' and more successfully adopted in Germany as 'co-operative managerial capitalism' than in Britain where 'personal capitalism' continued to predominate [6]. For managerial capitalism to develop, however, the owners of business had to be sure that their managerial employees were acting on their behalf; only confidence in the legal status of the corporation could ensure this.

Company Law and the stock market

Crucial to these developments was recognition of the business corporation as a legal entity. Like the evolution of capitalism itself, the development of 'Big Business' depends upon property rights acknowledged and confirmed by the legal system. For companies to prosper and grow it is essential that the legal framework recognises their existence and right to operate.

Company law has evolved over a long period of time and continues to be redefined in the face of changing and new circumstances. By the 1860s appropriate institutional frameworks conducive to the security and development of companies had been developed in the world's major economies. In Great Britain the Companies Act of 1856 established abiding principles of company legislation which were subsequently consolidated and clarified in the Companies Act of 1862. Simultaneous developments saw the emergence of unified company legislation in Germany, where ratification of the German Commercial Code was agreed in 1861. Company legislation of this kind was adopted by all the nations which would achieve relatively high levels of income per capita before 1914. In sharp contrast stood Russia and China, two countries where the legal standing of corporations remained ambiguous, or worse.

Once legal status had been achieved, further development of company law allowed the creation of limited liability companies. In unlimited companies, each investor was liable for all the outstanding debts of a company if it became insolvent. Limited liability legislation restricted the liability (i.e. the potential losses) of the investor to the amount initially invested in shares of the company. This massively reduced the financial risk of investing in companies, and so greatly enlarged the constituency of investors and increased the stock of capital available to businesses.

Furthermore, this multitude of investors had no wish to become involved in the day-to-day running of the companies in which they held shares. To achieve this, shareholders elected a Board of Directors who were appointed to determine strategy and oversee its implementation through the employment of senior managers responsible for the company's performance. Thus was achieved, depending upon how this relationship is viewed, either the divorce of ownership from control or, if this is regarded as a symbiotic arrangement, the marriage of managerial labour and absentee capital. This was a common development shared by companies in all the world's major economies.

Limited liability on its own was not enough to attract investors. They also wanted liquidity - that is, the ability to turn their investment into cash quickly and cheaply if the need arose, by selling their shares to someone else. So, with limited liability, came both an expansion of trade in shares and the further development of associated institutions - the

bourse or stock exchange - where specialist dealers in financial assets routinely arranged the sale and purchase of shares. Stock exchanges developed not only in the major financial centres of the world, including New York, Tokyo, Paris, Berlin and St Petersburg, but also in regional centres such as Philadelphia, Lyon, Frankfurt, Edinburgh and Bristol. Above all, however, it was the floor of the London Stock Exchange which provided the international market place for financial assets before 1914 where the nominal value of securities quoted in the 'Stock Exchange Daily Official List' exceeded £11 billion (\$55 billion). Investors with access to telegraph or telephone, located anywhere in the world, could achieve almost instantaneous purchase of internationally quoted securities through their brokers in London. Although equipped with more primitive communications equipment than today, and smaller in scale and scope than at present, global capitalism was already well-established a hundred years ago [10].

British Big Business - a failure of enterprise?

Although a number of large-scale corporations operated in Britain before the First World War, usually they are assumed to have been much smaller, and less economically powerful, than the corporate giants of America. Could this help to account for Britain's relatively poor economic performance, relative to the United States, in this period?

Recent research has demonstrated that British firms were much larger than has been assumed, much more varied in the economic activities in which they engaged and resembled more closely those in the United States and Germany than is suggested by the traditional literature. How has this conclusion been arrived at? What is the new evidence supportive of such a radical revision?

The traditional historiography rests heavily on Payne's seminal article [11]; this enumerates large manufacturing firms by their nominal capitalization - the face value of their shares. However, the estimated market value of many British firms was significantly larger than their nominal capitalisation - that is, their shares traded well above par value. American firms, by contrast, were often worth much less than their nominal value. In fact, shares in many U.S. firms were worth but a small fraction of the value printed on the share certificate; their capital was much diluted or 'watered'. US Steel, for example, often cited as the first billion dollar enterprise, was worth \$799 million (£162 million) in 1905, only 46% of its much quoted authorised capitalisation of \$1,708 million. By contrast, Britain's largest company, the Midland Railway, was worth £137 million and its largest industrial firm, J. & P. Coats, was worth £42.1 million, nearly four times the value of its nominal capitalisation.

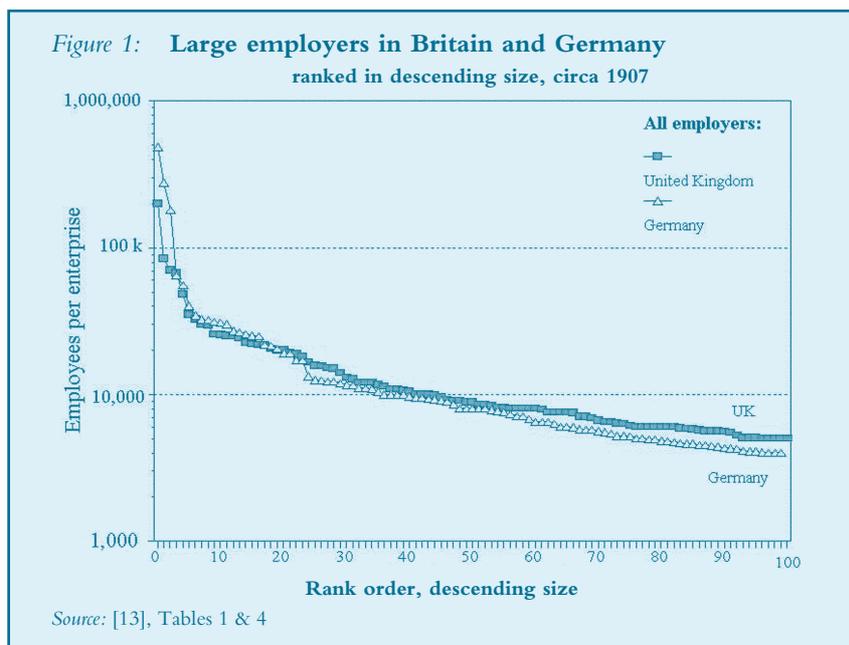
Use of an appropriate indicator of company size much diminishes the apparent gap between American and British industrial firms. This gap is further reduced when the comparison is extended to encompass all firms and all sectors of the two economies. British firms, both in absolute size and relative to their American counterparts, were not the midgets historians have assumed them to be [12].

An alternative indicator of company size also demonstrates that British firms were not significantly smaller than their German counterparts. Figure 1 provides a graph of the 100 largest employers in the two economies, plotted in diminishing size. One striking conclusion can be readily drawn: the two datasets exhibit a close correspondence. Excluding state enterprises and railway companies from this analysis, as business historians usually do, produces much the same pattern. By either definition - and contrary to the traditional historiography - the share of the national workforce employed by large companies in Britain exceeded that of Germany [13]. In the United States, where 'Big Business' was a highly charged political question and the 'Trusts' (i.e. monopolies) were demonised, the proportion of the labour force employed by the largest firms was even smaller.

There is an irony here, and one which indicates clearly the more general importance of business history. Historians have long deployed the failure of Britain to produce large companies as evidence of a more general economic failure. It is presented as an important symptom of economic malaise, one integral to the assertion of 'Entrepreneurial Failure'.

In turn, these ingredients contribute to explanations of 'Declinism', especially the decline of Empire. It is now necessary to re-examine all the elements of this ever-popular historical interpretation.

For diplomatic historians, the litmus test for Britain arrived with the First World War. Some have found the British economy wanting, handicapped by its relatively small firms, which compared unfavourably to the scientifically orientated



and well-organised corporate giants of Germany. However, we now know that this belief in British corporate inferiority, which assumes the existence of and a correlation between inadequate firm size and relative inefficiency, rests largely on the fallacious premise that German firms were larger than their British counterparts. In fact, by the last year of the Great War, there is clear evidence that British business, and French too, responded much more successfully than their German counterparts in manufacturing high-quality mass-produced munitions.

The immediate aftermath of the Great War was also less traumatic for Britain's largest firms than for their counterparts. In Germany, defeat and hyperinflation accelerated state-encouraged consolidation of large enterprises, some of which had lost assets to the victorious allies. In the United States the post-war boom, which encouraged ambitious corporate

expansion, was followed by deflation, dislocation and inventory accumulation which threatened firms with bankruptcy in 1920. Many large American companies were tested to breaking point by this shock to the corporate sector. One response to these dramatic circumstances was the adoption of the multidivisional form of corporate organisation, first at Du Pont and then at its associate, General Motors. Functional departments were replaced either by regional divisions, based on geographical territory, or on specific product lines (e.g. paints, dyestuffs, explosives, etc.). In later maturity, the multidivisional structure, which spread across the American corporate sector over the next twenty years, provided senior managers with the means to determine the strategy of a large company while delegating day-to-day control to divisional managers employed to organise discrete components of the corporation [4, 5]. This managerial innovation, born of the crisis of 1920, was subsequently to become one of the defining characteristics of Big Business. It is ironic that such an effective system of co-ordination was adopted in such chaotic circumstances.

Conclusion

The consolidation of 'Big Business' between the 1890s and the early 1920s represented a major phase of modern capitalist development. Although the merger movement in the United States captured the attention of contemporaries and, subsequently, historians, these trends in corporate growth and organisation were mirrored in the two other major industrial economies, Germany and Great Britain. When consistent and directly comparable measures of corporate size are used, large British firms are found to be similar in size to those found anywhere in the world. Apart from a handful of giant American corporations, each of which was both predominant in its sector and atypical of the generality of firms in the American economy; there was no trans-Atlantic 'corporate gap' before 1914. Furthermore, the industrial 'productivity gap' [2], confirmed to contemporaries by publication and analysis of the British Census of Production of 1907, was a result of factors other than managerial innovation, factors which were well-established before the American merger movement of the 1890s.

Once the evidence is examined, it is not surprising that Britain developed innovative institutional structures - including the large companies suggested by the term 'Big Business'. Britain's mature economy was the natural setting for this development, with its relatively large service sector and comparatively small agricultural sector, its comprehensive integration into the international economy and its long history of technical experimentation orientated to commercial exploitation. A failure to generate 'Big Business' in Britain would have been a surprising deficiency, but historians have preferred sensational assertion to the archival research required to test this popular myth which so conveniently underpinned the thesis of 'Entrepreneurial Failure'. If there was failure of enterprise in Britain regarding the emergence of Big Business, it was not a failure of businessmen; rather it was the failure of

historians to recognise the size, nature and range of activities of the large corporations which did exist in Edwardian Britain.

References:

- [1] **M. G. Blackford**, *The rise of modern business in Great Britain, the United States and Japan* (Chapel Hill: University of North Carolina Press, 2nd. edition 1998).
- [2] **S.N. Broadberry**, 'Forging ahead, falling behind and catching-up: a sectoral analysis of Anglo-American productivity differences, 1870-1990', *Research in Economic History*, vol. 17 (1997), pp.1-37.
- [3] **Y. Cassis**, *Big Business: the European experience in the twentieth century* (Oxford: Oxford University Press, 1997).
- [4] **A.D. Chandler**, *Strategy and Structure: chapters in the history of the American industrial enterprise* (Cambridge, MA: MIT Press, 1962).
- [5] **A.D. Chandler**, *The Visible Hand: the managerial revolution in American business* (Cambridge, MA: Belknap, 1977).
- [6] **A.D. Chandler**, *Scale and Scope: the Dynamics of Industrial Capitalism* (Cambridge, MA: Belknap, 1990).
- [7] **A.D. Chandler**, Franco Amatori and Takashi Hikino (eds.), *Big Business and the Wealth of Nations* (Cambridge: Cambridge University Press, 1997).
- [8] **J. Hughes**, *The Vital Few* (New York: Oxford University Press, 1973).
- [9] **D. Jeremy**, *Capitalists and Christians: business leaders and the churches in Britain 1900-1960* (Oxford: Oxford University Press, 1990).
- [10] **R.C. Michie**, *The London and New York Stock Exchanges 1850-1914* (London: Allen & Unwin, 1987).
- [11] **P.L. Payne**, 'The Emergence of the Large Scale Company in Great Britain, 1870-1914', *Economic History Review*, XX (1967), pp.519-42.
- [12] **P. Wardley**, 'The Anatomy of Big Business: Aspects of Corporate Development in the Twentieth Century', *Business History*, 33 (1991), pp.268-96.
- [13] **P. Wardley**, 'The Emergence of Big Business: the largest Corporate Employers of Labour in the United Kingdom, Germany and the United States, c. 1907', *Business History*, 41 (1999), pp.88-114.

ReFRESH is sponsored by the Economic History Society and edited by Dr. Katherine Watson and Professor Paul Johnson. This is the last edition which will appear in printed form and will be distributed free of charge to former subscribers. Any future contributions to **ReFRESH** which are distributed will be published electronically. All back issues of **ReFRESH** can be accessed on the website for the Economic History Society at <http://www.ehs.org.uk>

ISSN 0268-683 X