

American economic historian



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Alfred D. Chandler Jr., an American economic historian who conceptualizes the idea of capitalism related to national economies history, proposing the model of the integrated managerial enterprise. According to Harvey and Jones (1992: 11), Chandler points out the increase amount of industrial enterprises in the 20th century were the key element that stimulating and transforming the modern economies which were grown and created by following a dynamic economic pattern. This essay is going to critically evaluate how effectively Chandler's model of large managerial enterprises uncovers the long-term success of leading national economies and how they apply that economic pattern across varied national circumstances by investigating the US, Germany, Japan, UK and China and by reviewing Chandler's influential research contributions in this area during the past century.

Chandler (1990: 14) describes the managerial enterprise as the modern industrial enterprise containing several different operating units to carry out specific functions of production and distribution. It is also a "governance structure" that the investment decisions for current and future production and distribution are made by a hierarchy of lower-, middle- and top-level managers with specific knowledge and expertise (Williamson, 1981: 1539-44). All of these managers should be responsible to manage the organization rather than the inefficient family-owned organizations.

First of all, when did the development of big business begin? Schmitz (1993: 3, 14-15) states that at the end of 19th century, the innovation of railway had initiated the large managerial hierarchies, particularly in America and Europe, since the railway companies cannot be run by a single family.

Some large capital-intensive enterprises aware of the long-term achievement is to extend their businesses into new geographical and product markets. Thus, they began to adopt Chandler's multidivisional structure (or M-form) rather than Porter's value chain and externalities. From Chandler et al's (1997: 35-36) point of view, M-form is the most effective growth strategy and a decentralised structure to support a firm's long-term organizational goals and strengthen the internalities of an organization.

He (1997: 32) also illustrates successful managerial enterprises grow either through horizontal expansion engaging in the same stage of production with competitors or vertical integration ensuring steady supply of raw materials and forward to control buyers. Furthermore, they enlarge their businesses via moving into new geographical markets by strengthen their internal organizational capabilities from exploiting economies of scale and diversifying into related product fields from exploiting economies of scope which is based on competitive advantages (Harvey and Jones, 1992: 4).

Chandler (1990: 8) stresses that in order to exploit the economies of scale and scope and become a first mover in an industry, it is crucial to achieve the "three-pronged investments" in manufacturing, marketing and distribution and management which can increase the volume of sales, recruit and train potential managers, technology development, etc. Besides, large managerial enterprises have the superiority of their size to balance cost advantages by economies of scale and scope in capital-intensive industries (Harvey and Jones, 1992: 14).

The US organizations such as Standard Oil, General Motor (GM), Du Pont etc. have adopted the M-form since the early 20th century which allowed them to grow rapidly and to become diversified. Between the 1920 and 1960, almost all successful firms in the US adopted this organizational structure (Chandler 1990: 92, 203). In particular, some US firms also utilised the “ three-pronged investments” to benefit the advantage of first mover derived from economies of scale and scope.

Rockefeller’s Standard Oil Company, was one of the large oil refiners in the world, exploited economies of scale by applying horizontal integration to control major competitors and to lower the costs of abstracting kerosene initially. It also made the “ three-pronged investments” to take first mover advantage in oil industry (Chandler 1990: 93-94).

Similarly, IBM also applied the “ three-pronged investments” for its multiproduct system 360 to gain advantage of being a first mover (Chandler et al, 1997: 90) which help IBM to attain a leader position in the computer industry. It had obtained 70% of the world market for its general computer by 1969, for instance.

Moreover, large managerial enterprises should improve their internal organizational capabilities continuously and accurately, otherwise they will lose competitiveness and overwhelm by competitors. For example, in the US automobile industry, Ford disbanded its top management team which influenced its market share to fall from 55% in 1921 to 19% in 1940.

Meanwhile GM ran with the same management team who gained from 11% to 45% in its market share (Harvey and Jones, 1992: 22).

As more and more managerial enterprise has arisen in the US, it overtook several industries such as chemicals, machinery, automobile, etc internationally. GM, Du Pont, etc are known to be one of the most powerful corporations in their respective industries due to they invested in the “three-pronged investments”.

Chandler et al (1997: 507-508) regards Germany as “cooperative managerial capitalism” while German corporations responded to the demand of large-scale businesses as Americans equivalently. They developed extensive sets of managerial hierarchies and economies of scope. However, according to Hannah (1983: 122-123), German firms, unlike the US, heavily relied on inter-firms cooperation and a close financial support by banks. After the Second World War, German firms benefited from the first mover advantages in the capital-intensive industries by improving their internal organizational capabilities, particularly the metal manufacture and heavy machinery industries. Apart from that, many German firms also applied the “three-pronged investments” successfully such as BASF, Hoechst and Bayer (Harvey & Jones, 1992: 18). By comparing with British dye industry, for example, although Britain pioneered in dye industry with huge supply of high quality coal resources, the British firms failed to implement the fundamental “three-pronged investments”. Thus, German firms took this opportunity and overtook British firms in the dye production industry.

Further, Feldenkirchen (1987: 115-119) states that German law seems to broadly support the trade associations and to encourage market-fixing agreements such as enforcing cartelization in a number of industries during the Nazi regime of the 1930s.

Chandler states, to be successful it is necessary to be a pioneer, whereas Lewis (1957: 581) argues that success can be achieved with quick imitation. Japan would be a good example as it caught up and became a major competitor to America since 1960s. Yet, the Chandler's model to some extent shows the performance of Japanese economy.

In 1935, Zaibatsu nearly dominated the whole economy of Japan as they controlled over more than 50% of the machinery and equipment market (Kahal, 2001: 146-148). They did not only formed as an inter-organizational system of coordination and business management which comprises of three inter-linked forms – factory, firm, and inter-firm network, but also had a interrelated relationship with banks as Germany (Fruin, 1994: 24).

According to Fruin (1994: 36), the capital-intensive industries in Japan were growing rapidly during World War II and many industrial enterprises gradually replaced kinship with salaried managers. During the postwar years in Japan, it starts to tie in with America as enhancing internal organizational capabilities (Chandler et al, 1997: 328) and adopting the M-form for their large industrial enterprises (Suzuki, 1991: 102).

Chandler et al (1997: 313-314) points out Japanese industries have stimulated equipment investment since the Foreign Capital Law was set up in 1950 which enabled them to access industrial technology from the US and Western Europe. Besides, they promoted equipment investment among in order to leverage the amount of imports and exports. For example, Toyota, Toshiba and Kawasaki Iron & Steel began to implement the “ three-pronged

investments” as the Western companies to manage the export expansion after the increased investments (Chandler et al, 1997: 314-315).

Chandler et al (1997: 103) accuses UK as “ personal capitalism” where there was persistence of family-run businesses, never pursuit professional training, and blindly be partial to immediate consumption of profits rather than investment. UK firms failed to accomplish a dominant position in many industries due to they neglected to adopt the managerial enterprise model as the US and Germany. UK also failed to develop professional and high standard managerial hierarchies while it could not separate ownership and control and averse to make “ three-pronged investments” (Chandler, 1990: 252). Due to the small domestic market, there was less incentive to implement the mass production or mass distribution in the UK. On the other hand , two US companies, General Electric and Westinghouse despoiled the British markets and overbore the largest British firm as they made massive investments in production and distribution, for example (Harvey and Jones, 1992: 19).

In addition, most large firms in UK were in industries with limited-scale advantages as entrepreneurs and their families continued to make policy decision and so the managerial level remained much smaller than in the US (Hannah, 1991: 300). Thus, for instance, even though British is the pioneer in the dye industry, it could not maintain competitiveness as the US and Germany which made the essential investments.

In general, Chandler’s M-form would only be applied on a small extent of nation because his managerial enterprise model mainly emphasizes on

internal organizational capabilities to achieve competitive advantage rather than externalities such as the role of government, banks, suppliers, etc.

Hannah (1991: 306) states that Chandler's model has been criticized because of his underestimation of external factors and some important topics that he does not take into account such as public policies, financial systems, labor relations, education, etc which consist of a great impact to the national economic performance.

On the other hand, Porter (1990: 124, 126) mentions the role of government and chance in his diamond model which are two additional variable factors that affect the national system to achieve competitive advantage. Besides, Gerschenkron (1962: 416) stresses that Chandler's managerial enterprise model is not the only way to succeed as most late-industrializing nations have also developed industrial enterprises and economic growth through government intervention and policies.

According to Porter (1990: 125-126), World War is an example of chance which provided the US with huge advantages as although the US involved in the war, its territory was not affected. It therefore had a higher moral than other nations and pursued consumerism. This period of consumerism allowed the US economy to develop rapidly and to extend the economy distance than other states.

The role of government is a vital factor in some rising economies. However, Supple (1991: 510) criticized Chandler does not take the role of the state into consideration while the state can act as an entrepreneur and investor. China is an ideal example (Kahal, 2001: 62), where has predominantly

developed some large state-owned enterprises to lead the export growth in the past decades. The China government vigorously develops the five “pillar industries” which are machinery, automobile, construction, petrochemicals and electronics (Business Week, 1996). The government thus provides financial support and monopoly rights to the large enterprises in order to increase economies of scale and scope in these industries (Kahal, 2001: 187).

Chandler (1990: 623) indicates that unrelated diversification often leads to managerial breakdown. In the case of China, however, large enterprises directed by the government have composed by diversifying into unrelated field of work which is way to ensure their economic stability. Besides, large-scale enables them to benefit economies of scale and scope continuously and to become competitive.

Hannah (1983: 122-123) argues the success of Germany is primarily based on the foundation of the society, culture or education system. Further, to a large extent, some traditional medium-sized enterprises in Germany had continued to remain family managed. She also emphasizes Germany and Japan has benefited a highly-skilled workforce because of their systematic training of engineers and industrial apprenticeships.

In contrast to the US, German and Japanese businesses have mostly been formed by an inter-firm network and supported by the holding companies and keiretsu respectively. Despite Chandler does not take the need of inter-firm network into account, these business groups have played a significant role in the development of Germany and Japanese economies. Goto (1982:

61) recognizes business groups are particularly crucial in highly industrialized countries and one of the ways to success because they can control loss within the business, avoid scale diseconomies, economize huge machinery and transaction costs, etc.

Moreover, Fruin (1994: 177-178) explains Chandler's M-form did not spread wide in Japan because the inter-firm networks have already provided the fundamental needs for the firms and therefore the internal organizational capabilities proposed by Chandler become generally unnecessary.

Supple (1991: 508) argues that the model of managerial enterprise proposed by Chandler does not explain the whole economies performance because the giant firms Chandler investigated are chiefly focusing on manufacturing industry. He also adds up the occupancy of marketed nation output in manufacturing industry have never reached more than 35% in American and British and 40% in German. In addition, Chandler's approach does not comprise a number of small-scale industries and enormous service sectors that molded the economic evolution of Western Europe and the US in the past century (Supple, 1991: 508-509).

Last but not least, Chandler uses the US developed model of managerial enterprises as examples to apply into other nations which is doubtful to explain the execution of nations with different market size and externalities.

The differences between nations would also affect the nature of managerial enterprise such as culture and institutions. For example, Chandler believes British family firms failed to make "three-pronged investments" and capitalism because of the descent of their competitiveness and performance.

However, Hannah (1991: 307) refutes that different behaviour of family firms do not explain the performance of growth disparities and efficiency between national economies while there is no substantial quantitative evidence.

All in all, Chandler's approach provides an entire understanding of the growth of industrial organization and a concept of management. As an appropriate management adopted by managerial enterprise can enhance the success of an economy and become profitable. However, his analysis does mainly focusing on the performance of the US economy where is the place of origin. Thus, Chandler has been criticized that his model is mainly contemplating the American businesses and economic history, which neglects the practical economic of other nations (Supple, 1991: 512). Further, Chandler's view of analyzing the performance of UK has been criticized and he did not embrace various externalities in his approach, so it can merely explain some factors of the Japanese and Chinese economic performance. Because there are some loopholes identified in Chandler's model and the shortage of consideration of the external factors, his model is not sufficiently applied across varied national circumstances. Nevertheless, Chandler's model of managerial enterprise still is one of the most central frameworks in management.