CHAPTER 8

BIG BUSINESS

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8.1 INTRODUCTION

Big business has been at the heart of business history from its very beginnings whether as a mere literary genre (hagiographic anniversary monographs have usually been devoted to large companies); or, more seriously in the last half century, as an academic discipline (early interest centered on various aspects of large enterprises, in particular the separation between ownership and control). The Chandlerian paradigm, which dominated the field in the last quarter of the twentieth century, has of course considerably reinforced this trend, with other approaches to the subject being largely marginalized. Interest in big business has not waned with the advent of the post-Chandler era and is unlikely to do so, given its crucial role in economic development; but this role has been put in proper perspective and alternative forms of business organization reappraised as part of modern societies rather than mere archaisms.

The fact remains, however, that big business encompasses most aspects of business history, as a glance at the contents of this Handbook will immediately reveal. Several central issues, such as corporate governance, management practices, multinational expansion, innovative capacity, state regulation, sources of financing—to quote but a few—are discussed in greater or lesser detail elsewhere in this volume. This chapter will thus concentrate on defining the notion of big business; on comparing the various stages and the specific context of its development, especially in the United States, the major economies of Western Europe, and Japan; and on briefly discussing the socio-political dimension of the phenomenon.
8.2 Definitions, Concepts, and Issues

The concept of “big business” is one of the most commonly used yet least clearly defined in business history. Big business is most commonly equated with large companies (Newcomer 1964; Nakagawa 1975; Turner 1984; Supple 1992; Schmitz 1993; Chandler et al. 1997). Though fairly simple and straightforward, this definition leaves several questions unanswered—relating in particular to what should be considered as a large company and what type of large companies should be considered as part of big business.

Large companies are usually identified on the basis of national rankings rather than actual size. Whatever the country or the period studied, big business is as a rule considered as consisting of the 50, 100, or 200 largest companies (Chandler 1962; Chandler 1977; Chandler 1990; Hannah 1983; Wardley 1991; Kocka and Siegrist 1979; Siegrist 1980; Feldenkirchen 1988; Houtsius 1985; Kogut 1990; Smith 2006; Fruin 1992). However, the largest companies of a given country are not necessarily all large companies. One would expect that for large industrialized countries such as the United States, Britain, France, Germany, or Japan, there could be little doubt about the top 100 or at least the top 50. In fact, with the exception of the United States, and to a certain extent Britain, this was not the case during the first half of the twentieth century. Tellingly, Maurice Lévy-Leboyer did not include more than 40 companies for the year 1912 in his study of the French grand patronat (Lévy-Leboyer 1979), in other words a lower limit of only $6 million in terms of assets. Japan was even further off the mark as its tenth largest manufacturing company in 1913 would not have ranked among the top 25 in France. In Germany, the assets of the company ranked 101 in 1913, Daimler Motoren, did not reach $6 million, with just over 3,000 workers—a typical Mittelstand company. In many respects, big business could be seen primarily as an American phenomenon. In both 1913 and 1929, respectively 17 and 16 German industrial enterprises would have ranked among the United States top 200 measured by total assets (Chandler 1990, appendices A1, A2, A3, and C2), an enormous difference, even if measuring size by total assets probably favors American firms. In terms of market capitalization, 54 of the 100 largest firms in 1912 (and eight of the top ten) were American, as against 13 for the UK, 14 for Germany and six for France (Hannah 1999).

Three questions must be answered before attempting a more precise understanding of the concept of big business. First, should the notion be defined in absolute or in relative terms, and in the latter case, should it be contingent on period, country size, or other factors? Second, should only large industrial enterprises be considered as making up the world of big business or should firms from the primary and tertiary sectors also be included? And third, should the frontiers of big business be limited to the unit of the firm or should other forms of organization be taken into account?

Defining big business in absolute terms requires a yardstick with which to measure its level of development. A convenient one is provided by international league tables—the 500 or better, the 1,000 world’s largest companies. However, such lists have only been readily available in the last 30 years or so. Those painstakingly established for earlier periods, especially before 1945 (Schmitz 1993; Hannah 1999) only include the top 50 or top 100 and are thus limited to giant firms, a much narrower concept than that of big business. The choice of another yardstick is inevitably somewhat arbitrary, as regards both the measure of a company’s size (using share capital, total assets, turnover, market capitalization, or workforce will produce similar though by no means identical results) and the minimum size required to qualify for big business status.

A few implicit and explicit yardsticks have been put forward to identify large firms. In the Visible Hand (Chandler 1977), Alfred Chandler provides a list of American industrial enterprises—280 in total—with assets of $20 million or more, a reasonable lower limit though still too high to include more than a handful of French and Japanese firms, in the latter case zaibatsu. From another standpoint, 1,000 employees has been proposed as a possible benchmark for pre-1914 years (Kocka and Horn 1979), a respectable size at the time though more characteristic of the upper reaches of medium-sized enterprises, typical as it were of the French textile industry where 44 firms employed more than 1,000 people in 1906 (Caron 1981). Combining financial and physical measures, I have suggested a yardstick of 10,000 employees and/or a share capital of £2 million before 1914, £3 million in the late 1920s and $5 million in the mid-1950s in a comparison among big business in Britain, France, and Germany (Cassis 1997). Such an approach enables a comparison in both space (in order to assess the respective weight of big business in each of the major European economies) and time (the number of firms in the three countries employing 10,000 people or more increasing from about 50 in 1907 to 125 in 1922).

Big business must thus be defined in absolute terms in order to clearly circumscribe the object of study and make international comparisons meaningful. At the same time, its relative significance should not be entirely disregarded, especially at a national level. Whatever the lack of large firms compared with the United States, the perception of big business by contemporaries has always been strong in European countries, as witnessed by the impact of such groups as the dynasties bourgeoises (Beau de Lomenie 1977) or the deux cents familles (Jeanlucney 1984; Sédillot 1988) on French collective imagination or the ongoing debate over Finanzkapital in Germany (Hilferding 1981). This is also true of big business in countries with an even smaller proportion of large firms, such as Italy (Amatori 1997), Spain (Carreras 1997), or Australia (Fleming et al. 2004), to name but a few of those which it has not been possible to include in this study.

The more so as big business should not be reduced to manufacturing industry. In the Chandlerian perspective, the “modern business enterprise”—synonymous with
Big business—is a large, diversified, and integrated industrial firm, even though its forerunners were the railroad companies. Yet big business is a wider concept. On the one hand, it includes firms from both the tertiary (in particular banking, insurance, and public utility companies) and the primary (especially extractive industries) sectors. On the other hand, it includes large-scale operations undertaken through vehicles other than integrated firms—various types of loosely or tightly knit, ad hoc or permanent business groups (including holding companies, zaibatsu, financial syndicates, cartels, and others) as well as independent financiers. In that respect, size, including the scale of financial transactions in certain undertakings, rather than organizational forms (level of integration and diversification, separation of ownership and control, managerial hierarchies) should be seen as the key element in defining big business, even though the latter have been its dominant characteristics.

The main issues and debates regarding big business have mainly centered on large-scale companies and, given the dominance of the Chandlerian paradigm over an entire generation of business historians, on large-scale industrial companies. The principal questions have concerned their origins and the factors that have caused their emergence, their organizational structure, the sectors in which they have held a dominant position, and the countries where they have been most successful. While there has been a relative consensus around the answers provided to these questions, more controversies have surrounded discussions related to the singularity or universality of the Chandlerian model and, at a more general level, to the various aspects of their contribution to economic development.

8.3 Big Business and the First Industrial Revolution

Although big business is primarily a 20th century—and probably also a 21st century—phenomenon, it was not absent from the 19th century economic landscape or, more precisely, in the age of the first industrial revolution, from the 1830s to the 1880s. Significantly, this was probably more the case in Europe, primarily Great Britain, than the United States, but data on large companies remain scarce for this early period.

Large firms, employing 5,000 workers or more, were still uncommon in manufacturing industry. There is no systematic listing of companies of such size whether at national or international level, for say 1850 or 1870. However, anecdotal evidence suggests that, while being the exception rather than the rule, a not insignificant group of large firms towered over the rest. By 1870, this was the case of the Dowlais Iron Company, Bolckow Vaughan, Bell Brothers, or the Consett Iron Co. in Britain; Schneider, de Wendel, and Saint-Gobain in France; and Krupp in Germany. With the exception of Saint-Gobain, a chemical and glass concern, they were, not surprisingly, all engaged in the coal, iron, and steel industries.

The new joint stock banks, which emerged in the 1830s in Britain and in the 1850s in France and Germany, soon established themselves as big businesses, at any rate the largest among them. The National Provincial Bank of England, for example, established in 1833, had a paid-up capital of £1 million in 1865 and 122 branches throughout England and Wales. In France, the Crédit Mobilier was founded by the brothers Émile and Isaac Pereire in 1852 with a share capital of 60 million francs (£2.4 million) and the ambition to promote industrial growth in France and Continental Europe, but it collapsed in 1863 (Autin 1984). The Banque de Paris et des Pays-Bas, an investment bank, was founded in 1872 with a capital of 125 million francs (£5 million), half of which was paid-up. Moreover, the leading private banks, all in family ownership and management, were among Europe's largest companies until the 1870s. Baring Brothers & Co., the London merchant bank, had a capital of £1 million in 1854 and £2.5 million in 1872 (Ziegler 1988). And the combined capital of the five Rothschild houses (London, Paris, Frankfurt, Vienna, and Naples), which then formed an integrated multinational group, reached the colossal amount of £22 million, making it Europe's and probably the world's largest firm (Ferguson 1998).

Nevertheless, big business in the third quarter of the 19th century primarily meant the railroad companies. The first rail link, between Stockton and Darlington, in the north of England, was completed in 1825 and several others followed in the 1830s, but the real railroad boom dates from the 1840s. In England, the average annual amount of investment increased from some £6 million in the late 1830s to more than £25 million during the fever of the mid-1840s and remained at this level throughout the boom of the 1860s; in 1875, the British rail network was more than 70 percent complete, having required, over 50 years, capital to the tune of £630 million. In France, where the first speculative fever gripped the public in the mid-1840s, the railroads' accrued expenditure went from a little over a billion francs in 1852 to more than seven billion in 1869. In Germany, net investment increased steadily during the third quarter of the 19th century, going from an annual average of 88 million marks at the beginning of the 1850s to a little over 500 million at the end of the 1870s. In the United States, the railroad network grew from 3,300 miles in 1840 to 30,600 in 1860; by this date, more than $1.2 billion had been invested in the railroads (Gourvish 1980; Ribell 1993; Fremdling 1977).

Investment on such a large scale gave rise to the first real giant firms of the industrial age, whose organizational structure prefigured that of modern business enterprises. In Britain, 19 railroad companies had capital in excess of £3 million, at a time when only a handful of industrial companies had capital of more than £500,000 (Gourvish 1980). France's five largest businesses in 1881 were all railroad companies, the capital of the leading firm (Paris-Lyon-Méditerranée) reaching...
400 million francs (€16 million). Employment also reached huge proportions: in 1890, the Pennsylvania Railroad employed more than 110,000 workers, probably more than any other company, public or private, in the world (Chandler 1977).

The railroad companies were thus the first firms to face the challenges posed by the sheer size of big businesses, in terms of costs, investment, depreciation, internal organization, and the coordination of complex operations. Meeting these challenges required setting up a hierarchy of professional managers in charge of the company’s various tasks, joint stock banks and insurance companies were also increasingly run by salaried managers at the time, though to a lesser degree and with fewer layers than in railroads whose operations were technologically more complex, especially with regard to the coordination of traffic flows. A division between line and staff system of administration was designed for that purpose, with the former being responsible for the movement of trains and the latter for the other functions, such as the movement of freight and passengers, maintenance and finance. As Alfred Chandler put it, “the railroad was... in every way the pioneer of modern business administration” (Chandler 1977), an observation that applies not only to the United States, but also to Europe, above all Britain and France.

8.4 Big Business and the Onset of the Second Industrial Revolution (1880–1914)

The railroad companies remained the world’s largest well into the twentieth century. However, by the late nineteenth century, they had become increasingly regulated and assimilated into public services, if they had not been nationalized, as happened in Germany on Bismarck’s initiative during the 1880s. In terms of entrepreneurial activity, they tended to be on the fringes of big business, which came to be epitomized by the large firms in the new industries of the second industrial revolution—steel, chemicals, electricity, oil, motor cars, rubber, but also machinery and consumer durables in food, drink, and tobacco.

Large firms came to dominate these industries because of the economies of scale or scope made possible by significant advances in production techniques, in particular continuous-process production and the assembly of interchangeable parts. Continuous production was used from the 1860s in the refining and distilling industries: oil, sugar, beer, whisky, and other drinks. It also came to be used in the transformation of agricultural products into consumer durables (flour, cereals, cigarettes), in the chemical industry (sulphuric acids, matches, dye products, photographic films), and in the metallurgical industries, with the mass production of steel and the integration in a single plant of blast furnaces for the production of iron, of Bessemer converters for the production of steel in large batches, and of rolling mills for the fabrication of rails, girders, and other semi-finished products. The cost reduction induced by mass production was spectacular: from 270 marks per kilo in 1869 to 9 marks in 1886 for a new synthetic dye in the German chemical industry; or by 80 percent for cigarettes made with the machine invented by James Bonsack in 1880, whose patent was acquired by Duke in the United States and W. D. and H. O. Wills in Britain—the respective leading players in American Tobacco and Imperial Tobacco.

The assembly of interchangeable parts was more characteristic of the machine industry, including electrical engineering, and the fabrication of metallurgical products. Here, the cost advantages arose from the possibility of making a number of products in the same plant, using the same raw and semi-finished materials and often the same tools, especially lathes and milling machines, which appeared in the United States in the 1860s. But it also applied to the chemical industry where around 1900 the three leading German firms (BASF, Bayer, and Hoechst) could manufacture dye products in hundreds of different colors, or the same color applied to a different material, such as cotton, wool, silk, or leather.

Achieving such economies of scale and of scope was thus the first factor leading to the emergence of large-scale enterprises in the new industries of the second industrial revolution. However, other concomitant factors were also at work, especially the need for backwards and forwards integration. With their increasingly high fixed costs and level of throughput, firms had to ensure their supply of raw materials and outlets for their products. Backwards integration was more characteristic of European enterprises, particularly in German heavy industry, with the leading iron and steel producers (Krupp, Deutsch-Luxemburg, Phoenix, Thyssen, and others) acquiring collieries (Year 2005). Conversely, forwards integration, especially in distribution, was a strategy more commonly pursued by American companies. Those engaged in consumer products had at first to compensate for the lack of established distribution networks in the country in the 1880s, while the machinery industry required a more specialized sales force. In addition, backwards or forwards integration, when undertaken, appeared more cost-effective than relying on market mechanisms.

Businesses assumed large, sometimes very large proportions through internal and/or external growth, the combination of the two being the most common occurrence. While a number of firms considerably extended their productive capacities and, especially in the United States, set up their own distributing and/or purchasing capabilities, very large enterprises were more often than not the result of wide horizontal mergers between firms which in some cases were already vertically integrated. In both the United States and the United Kingdom, a wave of mergers took place in the last years of the nineteenth century and the first years of the twentieth century: more than 1,800 companies disappeared in mergers in the US between 1895
and 1904, and more than 650 in the UK between 1898 and 1900, from which emerged several of the two countries' largest companies, including United States Steel, the world's largest company, formed in 1901, I. E. du Pont de Nemours (DuPont), International Harvester, or Eastman Kodak in the US and Imperial Tobacco, or the Fine Cotton Spinners' and Doublers' Association in the UK (Lamoreaux 1985; Hannah 1997). These waves of mergers consolidated into single companies various business combinations already existing between firms, which were aimed at curbing price competition, but whose implementation left much to be desired. In the United States, they were often the result of a quest for market power (Lamoreaux 1985; Roy 1997) and in part triggered by the Sherman Antitrust Act of 1890, which banned combinations but allowed full mergers. In Germany, the takeovers of collieries by iron and steel manufacturers were clearly motivated by the fact that the quotas imposed by the powerful coal cartel did not apply to production and sales within a single firm.

As a result, the large enterprise of the turn of the 20th century, often dubbed the “Chandlerian firm”, appears as a centralized and vertically integrated firm, with its own distribution and purchasing facilities, whose various functions, including marketing, were entrusted to a hierarchy of salaried managers, and which tended to cluster around sectors where economies of scale and of scope could be achieved through mass production, especially food (including drink and tobacco), chemicals, oil, rubber, metals, and machinery (including electrical engineering).

However, the reality of big business at the time was more varied than suggested by this “ideal-type”. In the first place, there were sharp differences between countries. Not surprisingly, American big business came closest to this model of development, with fully fledged “Chandlerian” companies dominating all sectors of the second industrial revolution—Armour, Swift, American Tobacco, DuPont, Standard Oil (and its successor companies after its dismemberment in 1911), US Rubber, Goodrich, US Steel, Bethlehem Steel, American Can, International Harvester, Singer, General Electric, Westinghouse, to name but the leading enterprises in each of the relevant sectors. In the other major economies, even though the distribution per sector of the 200 largest companies was more or less the same as in the United States (Chandler et al. 1997), few companies came close to their American counterparts whether in terms of size or internal organization.

Everywhere, large enterprises emerged in the iron and steel industries, with a particularly high degree of vertical integration in Germany, less so in Britain and France. Otherwise, only in Britain was big business present in all industrial sectors, whether in consumer (especially textiles as well as food, drink, and tobacco) or capital goods, though somewhat timidly in chemical and electric engineering. Hardly any large firm in the consumer industries emerged in France or Germany before the First World War. Mechanical engineering, one of strong points of German industry, was the home of medium-sized firms (Humblet, Deutz, Demag, and others), with only the largest, MAN, having assets in excess of $20 million in 1913. In addition to iron and steel, German large manufacturing companies were only to be found in chemicals and, especially, electrical engineering, with AEG and Siemens towering above the rest in Europe.

On the other hand, European big business was not confined to manufacturing industry. By the early twentieth century, British, French, and German banks had become giant firms, in contrast to American banks whose expansion was limited as they were legally banned from establishing branches in another state. In 1913, the largest American bank, the National City Bank, of New York, ranked only 13th in the world with total assets ($2.26 billion) about half those of the then number one, the Crédit Lyonnais, of France (Cassir 2006). In Germany, of the 100 largest companies in 1907, measured by share capital, were banks, including four of the top five (Deutsche Bank, Dresdner Bank, Disconto-Gesellschaft, and Darmstädter Bank).

Moreover, as a result of their long-term relationships with the major industrial concerns, reinforced by their massive representation on their supervisory boards, the German universal banks held a commanding position within the German economy.

The same was true of the leading American investment banks (J. P. Morgan, Kuhn Loeb, and several others) which, despite a comparatively modest size, were at the very heart of American big business, due to their financing of the railroads and then the large industrial companies, and playing a crucial role in the merger wave at the turn of the century. Their main task was to supply these firms with capital, usually through public issues, but they built lasting links with them, served as their financial adviser, and were usually represented on their board of directors. So much so that a commission was appointed in 1913 to investigate the existence of a "money trust", the substantial involvement of bankers on the boards of directors of manufacturing companies, and the concentration of issues in the hands of a few investment banks, cumulatively giving the impression that Wall Street was controlling the country's business (Carosso 1970).

British merchant banks (N. M. Rothschild, Baring Brothers, Morgan Grenfell, Schroeder, Kleinwort), for their part, were at the heart of international big business, even though they were dwarfed in size by the clearing banks. They succeeded in keeping supreme control over the issuing of foreign loans—on behalf of governments and large corporations—in the City of London, the world's financial center in the age of the first globalization. Big business in the City was different from its traditional embodiment in a large or giant firm, with huge financial transactions being undertaken by medium-sized enterprises organized as partnerships or even by individual financiers. While merchant banks were primarily engaged in the accepting and issuing businesses, merchant houses diversified into non-trading activities, organizing and financing the commercial, financial, and manufacturing operations carried out abroad and in the Empire by their subsidiaries and parent companies and forming in the process investment groups of truly big business dimensions, the capital of the largest among them (James Finlay, John Swire, Balfour Williamson, Ralli Brothers, and others) being in excess of $20 million before 1914 (Chapman 1992; Jones 2006).
The separation between ownership and control, one of the main characteristics of modern big business, proceeded at an uneven pace. It has long been assumed that, in the United States, entrepreneurial firms, whose owners entrusted salaried managers with the day to day running of the firm while retaining overall strategic control, increasingly gave way to managerial firms where, from the early 20th century, salaried managers had become the dominant force on the boards of directors. Recent research, however, suggests that family ownership and control remained very strong in the largest American companies, with 57 of the 100 largest not even publishing their balance sheet in 1899 (Hannah 2006). This was also the case in Europe (Cassis 1997; Colli 2003), including several of the largest and best performing companies, such as Krupp and Siemens in Germany, Schneider and de Wendel in France, Vickers and Barclays Bank in Britain, to give but a few examples. Differences between countries were more a matter of nuance: interestingly, the lowest percentage of inheritors among the chairmen and chief executives of the leading British, French, and German companies in 1907 was in France (17 percent).

8.5 THE MATURING OF BIG BUSINESS (1914–1960)

With the growth of the industries of the second industrial revolution from the First World War to the early 1960s, big business took on a new dimension—in terms of size, forms of organization, and share of national and international business activities. This was the classical age of managerial capitalism, of the integrated "Chandlerian" firm, despite the persistence of other forms of business organization.

The First World War, a total war fought between industrialized countries, gave a strong impetus to the new industries—steel, motor cars, oil, rubber, chemicals (especially explosives), and machinery. In all these sectors, firms grew significantly larger, as a result of internal growth or through mergers, during the 1920s, especially in the motor industry. Measured by assets, the number of American manufacturing companies worth $50 million or more increased by 50 percent (in real terms) between 1917 and 1930—from 84 to 128 (Chandler 1990, appendices A1 and A2). Measured by size of workforce, the number of British companies employing 10,000 people or more increased from 17 in 1907 to 33 in 1929 (Cassis 1997). The largest companies also grew larger: at Siemens, for example, the German giant electrical engineering concern, the workforce grew from 81,795 in 1913 to 138,069 in 1929 (Feldenkirsch 1995). Business concentration likewise intensified, the share of the 100 largest enterprises in manufacturing net output rising from 17 to 26 percent in Britain, 17 to 20 percent in Germany, and 24 to 25 percent in the United States between 1918 and 1929. The Depression put a halt to the growth of big business, though the Second World War boosted the high-tech industries, in particular aerospace and electronics. However, before the 1960s, the forward march of big business was slower than in the 1920s, and in any case proceeded at a different rhythm and in different ways in each of the major countries.

The United States remained in every respect the country of big business, with large firms already established in all sectors before 1914. Moreover, most giant firms were American—34 of the world's 52 largest companies (measured by market capitalization) in 1939 (Schmitz 1993). In the 1920s, the most spectacular growth was in the motor industry, which became, in Alfred Chandler's words, "almost overnight ... the largest in the nation" (Chandler 1990). In 1929, 4.6 million cars were produced in the United States, over 20 times more than in France or Britain. Ford Motor Company, the first manufacturer to introduce the assembly line in 1914, took an early lead before being overtaken by General Motors in the late 1920s, the latter better adapting its production and marketing to a changing, more mature demand. General Motors became the country's third largest company by total assets in 1930, up from 23rd 13 years earlier, its assets having increased eightfold, in real terms, during this period to reach $1,300 million. Elsewhere, it was a matter of consolidation, with large firms expanding in the capital-intensive industries, especially in those related to the motor industry, in the first place oil, but also rubber, as well as in food, electrical equipment (with General Electric establishing a worldwide dominant position), and chemicals, which really took off in the United States after the First World War.

The structure of German big business remained fairly stable given the political upheavals experienced by the country, with the heavy industries, chemicals, and electrical engineering remaining its backbone. Even though all three industries were weakened as a result of Germany's defeat in the First World War (loss of territory, confiscation of assets abroad), wide-ranging national mergers gave rise to giant firms, with no equivalent elsewhere in Europe: IG Farben (formed in 1925) in chemicals and Vereinigte Stahlwerke (1926) in primary metals. Both had assets in excess of $500 million and employed well over 100,000 people in 1929, though the former held a stronger position within the German chemical industry than the latter within the iron and steel industry, as a few big names, above all Krupp, remained outside the combine. Both the Vereinigte Stahlwerke and IG Farben were dismantled by the Allies after the war, leaving in their wake, in broad outline, the firms which had emerged in the mid-1920s, in particular Thyssen in metals and the "big three" (BASF, Bayer, and Hoechst) in chemicals. Fewer institutional changes took place in electrical engineering with the two leading firms (Siemens and AEG) remaining ahead of their European competitors. In motor cars, by contrast, Germany lagged behind Britain and France, while big business remained a rarity in other industrial sectors.

In Britain, on the other hand, the new industries came increasingly to dominate the world of big business, with large firms emerging in chemicals, in particular...
with the creation of Imperial Chemical Industries (ICI) in 1926, but also with the Anglo-Dutch concern Unilever, formed in 1929, both among Europe's largest companies; in electrical engineering, with several firms, especially General Electric Company (GE) and Associated Electrical Industries (AEI), reaching big business status; in motor cars, with Austin and Morris (which merged in 1952), as well as Ford, the subsidiary of the American company; and in rubber, with Dunlop. In oil, British firms consolidated the lead they had established in Europe before the First World War, with its two world players: Shell (and its parent company Royal Dutch) and Anglo-Persian Oil (rerowned Anglo-Iranian Oil in 1955 and British Petroleum in 1954); and they retained their lead in the consumer industries, especially in food, drink, and tobacco—Imperial Tobacco was the world's second largest firm by market capitalization, behind General Motors, in 1939 (Schmitz 1993). In the 1930s and 1940s, large firms also developed in pharmaceuticals (Boots, Beecham) and aerospace (De Havland, Hawker Siddeley), making Britain the European country where big business reached its highest level of development.

French big business followed the British example in the new industries, but from a distance. Its main strength lay in motor cars (with Citroen, probably Europe's leading car manufacturer until its collapse in 1935, Renault, and Peugeot), where it maintained its lead throughout the 1920s before falling behind Britain and then Germany, as well as in rubber with Michelin. A certain amount of catching up took place in electrical engineering (CSG, Thompson), chemicals (Kuhlmann, Saint-Gobain, Pechiney, and increasingly from the 1930s Rhone-Poulenc), and oil, with the Compagnie Francaise des Petroles. However, big business remained mainly concentrated in the heavy industries, (with no significant mergers in the 1920s, but major consolidations after the Second World War, with the formation of Usinor in 1946 and Sidelor in 1950) and hardly made any inroads into the consumer industries. Though weakened by the Depression and German occupation, French big business grew closer to its British and German counterparts, especially the latter, during this period.

In both Britain and France, the main characteristic of the post-Second World War years was, however, the extent of direct state intervention through the nationalization of a significant chunk of big business. The move was essentially political, with the Labour Party coming to power in 1945 in Britain, and a more general consensus over state control in France, reinforced by the weight of the Communist Party and more generally the Resistance in French politics. In 1945 and 1946, in both countries, coal mining, electricity, gas, air transport, railroad companies (nationalized in France in 1936), and the central bank were transferred to state ownership, in addition to the iron and steel industry in Britain, and the main commercial banks and insurance companies, as well as the car manufacturer Renault, in France (Prost 1986). Privatization would proceed at a very uneven pace, including new nationalizations, during the following 50 years.

The development of Japanese big business followed a different path. In terms of size, the largest industrial companies grew closer to their German and French counterparts, with 14 of them employing 10,000 people or more in 1930 and 25 in 1954 (Fruin 1992)—the figures were respectively 27 and 26 in Germany and 22 and 20 in France (Cassio 1997). In terms of sectors, however, the new industries were far less prominent among the country's largest firms where textiles and food (with shipbuilding) dominated in the 1930s and steel (with textiles and electrical engineering) in the 1950s.

As businesses grew larger, the way they were run had to change, though in varying degrees, in order to adapt to increasingly complex operations—whether technical, financial, logistical, or organizational. Big business became more professional during this period. While managerial control had established itself in large American companies by the 1920s, family ownership (with extensive delegation of power to salaried managers) persisted in Europe, before sharply declining after the Second World War. The level of education also improved, with a particularly high proportion (over 70 percent) of university degrees in France and Germany, though hardly any connected to business studies (Cassio 1997). The power of salaried managers also strengthened considerably in Japan's largest corporations, with managerial control becoming established after World War II (Morikawa 1989).

New organizational structures also emerged as a response to large firms' strategy of diversification into new products, which posed serious problems to the managerial hierarchies set up to deal with the multiple tasks linked with the production and distribution of single products. The solution was found in the multidivisional structure, often known as the M-form, whose emergence and subsequent diffusion has been analyzed in masterly fashion by Alfred Chandler (Chandler 1962, 1990). This new structure, which appeared in the United States in the 1920s in such firms as General Motors or DuPont, was decentralized and consisted of autonomous divisions, each of them corresponding to the firm's main product lines and responsible for the various functions previously found in the multichanneling structure. This new organizational structure enabled top managers to concentrate on the firm's global strategy and the allocation of resources to the various divisions, leaving to general managers the task of running each division. However, practice did not always entirely conform to theory, even at General Motors, one of the originators of the model—it was introduced in order to perpetuate owners' control and operating executives were frequently integrated into strategic planning (Freeland 2001).

The multidivisional structure spread slowly but steadily among the world's largest firms: in 1932, it had only been adopted by eight American, five British, and three French companies. By 1960, this was case for 43 percent of the 100 companies in the United States, 30 percent in Britain, and 21 percent in France, as well as 25 percent in Germany and 29 percent in Japan (Hannah 1999). It was to grow much further. In the meantime, other organizational structures continued to exist or to co-exist with others. In France, for example, holding companies
controlling dense networks of crossed ownerships and interlocking directorships proved a flexible structure facilitating cooperation, financing, and technological transfers while saving managerial resources (Lévy-Leboyer 1980). In Japan, the zaibatsu were a common, though not unique, form of organization before the Second World War, consisting of diversified business groups, owned and controlled by a single family (Mitsui, Sumitomo, Mitsubishi, and Yasuda being the most prominent among them). They were dissolved by the Americans after the war, but soon came together again in the form of enterprise groups, through meetings of former salaried executives and companies formerly belonging to a zaibatsu buying each other’s shares (Morikawa 1997).

Manufacturing industry rather than finance and services came to embody big business during this period, as a result of the extraordinary growth of the new industries on the one hand, and the increasingly regulated context within which financial institutions had to operate from the 1930s onwards on the other. Yet the big banks remained an essential part of the world of big business, even in the countries where their position was weakened, such as France, where they lost their position as the country’s largest companies after the First World War and were driven to the fringes of big business after their nationalization in 1946; or Germany, where they suffered from the hyperinflation of 1923, the financial crisis of 1931, their marginalization under the Nazi regime, and their dismantling by the Allies after 1945 (though they had been reconstituted by 1956)—yet without losing their key role in the country’s “cooperative” type of capitalism.

In Britain, by contrast, the “big five” (Barclays, Lloyds, Midland, National Provincial, and Westminster) which emerged from the 1918 merger wave ranked among the country’s top companies (Wardley 1991) and remained the world’s largest banks for nearly four decades. Admittedly, the City’s international activities were gradually weakened by two world wars and the world’s economic depression, yet the persistence of the British Empire and the sterling area enabled the networks of merchants, bankers, and financiers to pursue their large-scale operations (Jones 1995, 2000; Cassis 2006). The same was true of American banks, especially in the 1920s, when New York was vying with London for world financial supremacy, with both investment banks (this was J. P. Morgan & Co.’s apogee) and commercial banks (above all the National City Bank) very much involved in big business operations, whether at national or international level. The Wall Street Crash of 1929, the banking crisis of the 1930s, and the regulations of the New Deal (which among other things enacted the separation between commercial and investment banking) were of course a setback. Yet by the mid-1950s, the country’s three leading commercial banks (Bank of America, First National City Bank, and Chase Manhattan Bank) had supplanted their British counterparts as the world’s largest banks, despite regulations prohibiting them from opening branches in another state, and were set to expand abroad with the gradual resumption of international capital flows.

8.6 New Challenges (1960–1990)

The industries of the second industrial revolution reached full maturity during the 30 years following the Second World War, as a corollary, a further development of large “Chandlerian” firms. Big business grew in size and number. In the three largest European economies (Britain, France, and Germany), for example, the number of companies employing 10,000 people nearly trebled—from 11.4 to 32.3—between 1951 and 1973, of which 22 employed 100,000 people or more (Cassis 1997). While remaining broadly concentrated in the same sectors as in the early 20th century, a higher proportion of large firms were to be found, with national variations, in electrical equipment, chemicals, oil, and motor cars than in iron and steel, food, and mechanical engineering. As in earlier periods, American firms were the largest, by a significant margin; in 1972, the 500 largest US industrial companies all had a turnover of $400 million or more, a size reached by 60 companies in Britain, 38 in Germany, and 29 in France. The world’s largest companies were all American. Measured by turnover, General Motors was by far ahead, with about $30 billion, followed by Exxon and Ford, with about $20 billion. Only the two Anglo-Dutch concerns Royal Dutch Shell, in fourth position (with $14 billion) and Unilever, in ninth, made it to the top ten alongside General Electric, Chrysler, IBM, Mobil Oil, Texaco, and ITT (Fortune, Sept. 1973).

The gap between American and European companies was particularly strongly felt on the Old Continent in the 1960s, as witnessed by the instant success of The American Challenge, a book published in 1967 by the French journalist and politician Jean-Jacques Servan-Schreiber, and the following year in English translation. Servan-Schreiber was not only concerned by the extent of American foreign direct investment in Europe or even the much larger size and higher profitability of US companies, but by their dynamism and their superior organizational capabilities (Servan-Schreiber, 1968). And yet Europe was catching up with America, not only in terms of levels of incomes and productivity (Crafts and Tomolo 1996), but also in terms of business organization. In particular, the multidivisional structure was spreading fast among the largest European firms to reach 58 percent in France and Germany and 80 percent in Britain in 1980, as against 81 percent in the United States (Dyas and Thanheiser 1976; Rumelt 1974; Channon 1973). However, the adoption of the M-form and American style of managerial capitalism was no guarantee of success, as can be seen from the mediocre performance of British industry in the 1970s (Jones 1997), where diversification and multi-division appear to have been associated with ineffective governance and poor monitoring (Toms and Wright 2002). For individual firms, including giant multinationals, the tension between the benefits of local knowledge and the disadvantages of excessive decentralization could lead to poor performance, as witnessed by Unilever during this period (Jones 2005).
The "Japanese challenge", which marked the later part of the period, was both a competitive threat to the established positions of American and European firms, in particular in electronics and motor cars, and a new way of coordinating business activities. The growth of Japanese big business was spectacular in the 1960s and 1970s. By 1973, 79 of the 300 largest non-American industrial companies, measured by sales, were Japanese, as against 61 British, 43 German, and 31 French. This could be seen as a reflection of the tremendous growth of the Japanese economy during the three decades following the Second World War. And yet this was only part of the story. In other respects, Japanese industrial companies were smaller than their Western counterparts—for example if measured by workforce. Of the 401 companies employing 20,000 or more in 1973, 211 were American, 50 were British, 29 German, 28 Japanese, and 24 French. The difference was particularly striking in the motor industry: in 1989, Toyota's employment (65,000) was more than ten times less than that of General Motors (750,000), even though it produced more than half as many vehicles (4.5 million as against 7.9 million) (Fruin 1992). Toyota's employment was also substantially smaller than that of all the major European manufacturers.

Such differences reflected the specific organization of Japanese big business, where networks of relationships between companies prevailed over internalization and vertical integration. Japanese companies were less diversified than their Western counterparts, not only American, but also European. They tended to concentrate on core technologies and to entrust the more peripheral ones to outside companies belonging to the enterprise group, the keiretsu, organized around a leading company—such as Toyota, Nissan, Honda, Toshiba, Sony, Hitachi, to name but a few. Cross-shareholding linked these companies and a hierarchy existed within the group, depending on the degree of closeness to the parent company. In the motor industry, for example, where a company like Toyota dealt with some 10,000 suppliers, there were several tiers of parts manufacturers: the first directly supplied the car manufacturer, a second tier supplied the first, and so on. (Morikawa 1997).

As a result, most Japanese companies remained organized in a functional rather than in a divisional structure; and when adopted, the M-form was only partly implemented, with decisions related to financial matters, personnel, and long-term planning being as a rule outside the scope of the divisions (Fruin 1992).

With the successes of Japan's manufacturing industry in the 1970s and 1980s, this system not only aroused interest and admiration, but was seen by some as a new model of business organization—in particular as far as quality control and innovative capacity were concerned. Yet just as Japanese big business was starting its meteoric rise, the strategy of American large firms was moving in the opposite direction—into far more pronounced diversification. The product range of the 148 companies, out of the 200 largest in 1950, that survived until 1975 increased from an average of 5.22 per company in 1950 to 9.74 in 1975 (O'Sullivan 2000). This strategy was mainly achieved through mergers and acquisitions, whose number rose to 1,953 between 1963 and 1967 and to 3,736 between 1968 and 1972, leading to the widespread forming of conglomerates, largely dominated by a financial strategy of control (Fligstein 1990). Conglomerates were characterized by their diversification into activities that were completely unrelated to each other, with the underlying idea being that such diversification would shield them from the economic ups and downs in a particular sector and thus increase their profitability. Further profit came from selling some of the conglomerate's constituent parts (Baskin and Miranti 1997). In this way, International Telegraph and Telephone (ITT), probably the best known among them, acquired 163 companies in the 1950s and 1960s, becoming the ninth largest American company in 1973, with a turnover of $8.6 billion.

The performance of conglomerates proved disappointing, opening up the way to the wave of mergers and acquisitions which took place in the 1980s. The conviction that the interests of shareholders were not always well served by their salaried managers had become widespread in the United States by the late 1970s. From this viewpoint, a takeover bid, if necessary unfriendly and addressed directly to shareholders, seemed to be the best penalty for poor management and the threat of such an action the best way of compelling management to remain vigilant. A wave of buying and selling businesses and of mergers and de-mergers followed. The latter were often friendly and guided by real strategies aimed, for example, at refocusing a firm's activities on its most profitable trade. At other times, they were hostile and undertaken with the sole aim of taking advantage of out-and-out dealing in companies, notably by using their assets for the benefit of the operation's promoters and shareholders. While hostile takeover bids were few in number, in value they represented nearly a quarter of the total and were by far the most spectacular. It was the era of the great Wall Street raiders, among whom were Carl Icahn, Thomas Boone Pickens, and the firm Kohlberg, Kravis, Roberts. They henceforth took on very large enterprises—RJR Nabisco was purchased for $25 billion in 1985—and their acquisitions were financed to a great extent through leveraged buyouts (Baskin and Miranti 1997; O'Sullivan 2000).

The merger and acquisition trend spread to Britain, thus giving rise to the term "Anglo-Saxon capitalism", meaning dominated by market forces. The raiders were also present in London, an extreme example being Lord Hanson, who in 1986 acquired the Imperial Group, one of the ten largest British companies, and in 1989 Consolidated Goldfields, one of the largest mining groups in the world, taking his conglomerate, Hanson Trust, into the top ten British companies before being thwarted in 1991 in the face of his ultimate prey, the chemical giant ICI (Brummer and Cove 1994). But it was the Thatcher government's privatizations which altered the face of British big business, with public utility companies, in the first place British Telecom (BT) emerging among the country's largest firms by market capitalization—a measure which would prevail in the financially oriented 1990s.

On both sides of the Atlantic, these operations were orchestrated by the main investment banks, which re-emerged at the heart of big business in the 1980s, with
the large American firms—Goldman Sachs, Merrill Lynch, and Morgan Stanley—in the lead, followed by Crédit Suisse First Boston, J. P. Morgan, Citigroup, Deutsche Bank, UBS, Nomura, and several others.

8.7 Big Business in Post-Industrial Societies

On January 4, 2000, the distribution of the top 500 global companies, by market capitalization, was as follows: by country, 219 were American, 77 Japanese, 46 British, 26 French, and 20 German—in other words, nearly 80 percent of the total for the five leading economies, with a persisting US dominance (more than 40 percent). And by sector, banks came first in terms of number of companies, though information technology hardware and telecommunications services accounted for a higher aggregate capitalization, with respectively $354.8 billion (55 companies) and $3.480 billion (32 companies), as against $1.278 billion for banks (65 companies). Software and computer services came fourth ($1.906 billion and 41 companies) and pharmaceuticals fifth ($1.467 billion and 32 companies). Media and photography accounted for a larger number of companies (33), but with only about half pharmaceuticals’ market capitalization (Financial Times, May 4, 2000).

Whatever the volatility of market capitalization, the major characteristics of big business in post-industrial societies were clearly taking shape.

First, new sectors have come to hold sway over the world of big business. On the one hand, there is the weight of finance (with not only banks but insurance and other financial services) and services (telecommunication and computer services as well as media, entertainment, and retailing), together making up more than half the total. And on the other hand, within the manufacturing sector (to the extent that it is possible to clearly differentiate it from services), a shift towards the industries of the third industrial revolution, above all information technology, is clearly perceptible. The bursting of the new technology bubble in spring 2000 did not fundamentally alter this trend.

Second, large and giant firms have remained, more than ever, a distinctive feature of the “new economy”, with big business continuing to expand, both through internal and external growth. The wave of mergers reached new heights during the 1990s. In the United States, the trend got relentlessly under way again from 1994, with the total volume of mergers and acquisitions reaching more than $1.600 billion in 1998, compared with just over $200 billion in 1989 (O’Sullivan 2000). In early 2000 the purchase of Time Warner by AOL for more than $180 billion surpassed all previous transactions, including the mergers between Citicorp and Travelers, or Exxon and Mobil. Foreign enterprises participated widely in this trend, notably with the buyout of Chrysler by Daimler Benz and that of the Bankers Trust by Deutsche Bank. Hostile takeovers and stock-market battles began to hit Continental Europe: in France, the Banque Nationale de Paris (BNP) acquired Paribas, even though it had been coveted by the Société Générale; in Germany, Mannesmann, the country’s second industrial group in the process of reconverting from metallurgy to telecommunications, fell under attack from the British mobile telephone operator Vodafone, after a battle that shook the very foundations of the Rhineland model of capitalism, distinguished by the dominating role of the banks and the pre-eminence of management over shareholders. As in earlier periods, market control played a significant role in this latest phase of cross-border mergers and acquisitions, spurred among other things by a combination of market integration with increasingly severe controls on cartels and inter-firm collusion.

Third, big business has remained as much an American phenomenon as a century earlier. More significantly, at the turn of the 21st century, American dominance was particularly strong in the new technologies, with six of the 10 largest firms in software and computer services, including the top three (Microsoft, IBM, and Oracle); and eight of the ten largest firms in information technology hardware, including the top two (Intel and Cisco Systems)—though in telecommunications services, European and Japanese companies were in the lead (Financial Times, May 27, 2004). Fourth, the strategy and structure of big business has not been fundamentally altered with the advent of the new economy. Admittedly, many large firms have divested some of their activities in order to refocus around those in which they are most competitive; while the more recent large firms in the new technologies have tended to be less diversified, with more flexible organizational structures. Yet the “Chandlerian” firm has, if anything, become more widespread in Europe during the 1990s, with an increasing proportion of the largest British, French, and German firms adopting a strategy of related diversification and, especially, a multidivisional structure, though the latter has taken a new, more horizontal form with the adoption of internal networks of coordination (Whittington and Mayer 2000). As for the United States, the reorganizations of Intel and Microsoft in 2005 suggest a persistence of the multidivisional model, in particular with Intel moving to the M-form for the first time.

8.8 Conclusions

If big business expanded tremendously with the advent of the second industrial revolution, it is unlikely to retreat with the transition to the third. Large firms were best suited to the great industries of the twentieth century—electrical equipment,
chemicals, motor cars, aircrafts, oil, rubber—and their development and decisive contribution to economic growth would scarcely have been possible with a different type of business organization. Globalization and the third industrial revolution might have led to the emergence of a new institutional framework, with an enhanced role for markets and networks, but global enterprises have remained in force (Galambos 2005). Depending on specific factors, business activities might be better organized through market mechanisms, managerial hierarchies, or network relationships, as has recently been argued in the case of American business history (Lamoreaux et al. 2003). The permanence of big business, seen from the perspective of large-scale operations, stems from its capacity to accommodate various forms of internal organization and to adapt to changing external conditions—not least because the roots of its development are not strictly economic, but are also a matter of wealth, status, and power.

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References


