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Book Review — Digitized Version

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Business history review

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Suggested Citation: Kocka, Jürgen (1990) : [Rezension] Germany: Cooperation and competition - Alfred D. Chandler: Scale and scope: the dynamics of industrial capitalism. Cambridge, MA: Belknap Press of Harvard University Press, 1990, Business history review, ISSN 0007-6805, Cambridge University Press, Cambridge, Vol. 64, Iss. 4, pp. 711-716

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Germany: Cooperation and Competition

Jürgen Kocka

Alfred D. Chandler Jr.'s *Scale and Scope* is comparative economic history at its best. It begins with a set of related assumptions, concepts, questions, and hypotheses developed from previous in-depth research on the American case and explicitly stated in the first part of the book. Chandler's basic interests are in the rise and the changing character of the modern industrial enterprise and its fundamental role in the growth and the transformation of Western economies in the period of advanced industrialization.

Changing markets as well as new transportation and communication systems on the one hand and improved processes of production on the other created the possibility of increased regularity, volume, and speed in the flows of goods and materials. Consequently, in some industries substantial economies of scale and scope became possible. In order to benefit from them, entrepreneurs had to invest heavily in production facilities, marketing networks, and management. The resulting modern industrial enterprise was large-scale and capital- and management-intensive; it tended to expand at home and abroad, to diversify into a multiproduct enterprise, to be led by salaried managers and coordinated by managerial hierarchies, and to integrate forward (into sales) and sometimes backward (into supply). The first entrepreneurs to create such enterprises acquired powerful competitive advantages and good prospects for long-term success. The economies in which these changes toward the modern managerial enterprise were made early and broadly did better than economies in which these changes were delayed. Chandler uses this analysis to explain the much better performance of the American and the German economies compared with the British between the 1880s and the 1930s and again after 1945.

In order to be manageable, a historical comparison must restrict itself to a limited number of questions. Consequently, Chandler excludes several topics of social and cultural history—for example, changing labor relations, the broader cultural environment, and business-government relationships (though he does try to consider the impact of different legal and educational systems). Chandler chooses to compare the United States, Great Britain, and Germany, which together accounted for about two-thirds of the world's indus-

trial output between the 1870s and the 1930s. For each of these countries he constructs comparable tables of the two hundred largest industrial enterprises, ranked by assets and listed by industrial groups, at three points between 1913 and 1953—a major achievement in itself.¹ Chandler mobilizes information on the history of a substantial minority of these largest industrial enterprises in the three countries by exploiting an impressive wealth of printed and unprinted materials, company histories, and research literature. By careful country-to-country and industry-to-industry comparisons, he describes and explains the different timing and varying patterns of the rise of the modern industrial enterprise. By applying the same concepts and hypotheses to structure the materials in each case, Chandler succeeds in pointing out what was common and what was specific to the three national cases, and why. In this way he checks and supports his main causal hypotheses.

Chandler's analyses are dependent on the quality of the available literature and the state of research on each country. Consequently, the section on the revolution of distribution is weaker in the part on Germany than in the two other parts because of the imperfect state of research. Of course such synthetic overviews must be selective, reflecting the author's analytical aims. As a result, for example, the chapters on textiles are short and sketchy, and other labor-intensive industries are hardly touched on. Chandler's approach seems to illuminate more about the American and the German cases than about the British one, but developments in each of the three nations become more understandable and appear in a new light as a result of Chandler's comparative method.

The field of business and entrepreneurial history abounds with individual studies of single companies, single aspects, sometimes single industries; systematic analysis is rare. Chandler's chapter on Germany is a splendid exception, a welcome synthesis, an innovative piece of research. Because of his comparative approach, Chandler succeeds in bringing in branches of industry and specific companies that are usually neglected or at least not integrated into the picture one has of German business history: rayon and alkali producers, the chocolate maker Stollwerck, and the tire manufacturer Continental. The

¹ However, Hannes Siegrist has produced more detailed and more complete lists on the *hundred* largest enterprises in German manufacturing and mining in 1887, 1907, and 1927 (on the basis of nominal capital, including the large personal enterprises). Cf. the tables in Norbert Horn and Jürgen Kocka, eds., *Law and the Formation of the Big Enterprises in the Nineteenth and Early Twentieth Centuries* (Göttingen, 1979), 98–112, and Hannes Siegrist, "Deutsche Grossunternehmen vom späten 19. Jahrhundert bis zur Weimarer Republik," in *Geschichte und Gesellschaft* 6 (1980): 60–102, esp. 93–102.

information is tremendously rich, accurate as far as I can judge, and—most important—it is part of a well-structured, well-integrated argument. Chandler's comparative research produces new insights—for example, his analysis of IG Farben's limited ability to develop new and promising lines of production in the 1920s and 1930s (pp. 580–81). Chandler also succeeds in establishing and detailing what we had assumed in a more general, less well supported, and sometimes inaccurate way: the striking similarities in the early rise of German and American managerial capitalism, in sharp contrast to Britain, where the commitment to personal capitalism and to market instead of to hierarchies continued much longer; the pioneering role of the leading German electrical manufacturer Siemens in the development of the multidivisional structure before the First World War; the particular modernity of German producer-goods industries and the relative backwardness—or fragmentation—of some of the German “lesser industries,” especially producers of food, tobacco, and consumer chemicals. Chandler convincingly shows that the larger (though declining) role of the banks and the legality and abundance of cartels (with or without common selling agencies) and other forms of intensive interfirm cooperation distinguished the German brand of “cooperative managerial capitalism” from American-style “competitive managerial capitalism.”²

As a consequence of this full-fledged comparison, which is based on an admirable amount of painstaking research in the literature and archives of three countries, Chandler has slightly modified his approach. First, he no longer simply contrasts American with European developments.³ Indeed, differences within Europe (between Germany and Great Britain, for example) are more pronounced than differences between single European countries (especially Germany) and the United States. Second, functional integration backward and forward is now less clearly interpreted as an indicator of a firm's modernity than it was in Chandler's earlier writings. Indeed, in established industries vertical integration sometimes decreased as a consequence of better developed and more stable markets, particularly after 1945 (p. 613). Finally, in his earlier writings, Chandler tended to assume that international differences in the rise of the large-scale, diversified,

² As Chandler knows, this reconfirms the notion of “organized capitalism” developed in a more sweeping way in a controversial debate that started in the early 1970s. Cf. H. A. Winkler, ed., *Organisierter Kapitalismus* (Göttingen, 1974).

³ This was done, for example, in Alfred D. Chandler, Jr., and Herman Daems, “Administrative Coordination, Allocation and Monitoring: Concepts and Comparisons,” in Horn and Kocka, eds., *Law and the Formation of the Big Enterprises*, 28–54.

integrated, managerial enterprise resulted from different market sizes and growth rates. In *Scale and Scope* the causal analysis has become much more differentiated and complex. Besides markets and other strictly economic factors, Chandler now stresses the different organizational capabilities of entrepreneurs and the skills and motivations of managers as explanatory factors, and he tries to account for them in a variety of ways—by considering, among other issues, the different educational, cultural, and legal traditions within the three countries. In the case of Germany, for example, he convincingly stresses the importance of the long tradition of bureaucratic management (p. 500).

The causal analysis of the observed national differences could be further enriched. First, the concrete links between education, recruitment, skill, and motivation of managers on the one hand, their strategic decisions and the performance of their enterprises on the other, need further clarification. In Chandler's book managerial capabilities and resources are described in only a general way; the real working of the managerial structures remains something of a "black box" (with some exceptions, for example, p. 595). Second, for the late nineteenth and early twentieth centuries at least, the relationship between the relative backwardness of an economy at large and the relative modernity of some of its largest firms should be explored. West European entrepreneurs may have had fewer incentives to build large and sophisticated managerial hierarchies because they could rely on well-developed market structures and a high degree of overall economic specialization, whereas in the less developed economies of Central and Eastern Europe entrepreneurs were forced to internalize more functions and to use formal organization to compensate for deficient markets. Under different market conditions English and German entrepreneurs behaved differently, but both of them made choices that were rational relative to the constellation in which they found themselves. However, the more backward situation led to entrepreneurial solutions that, in the long run, turned out to be favorable to modernization and growth, whereas the more developed constellation in the West permitted strategic decisions and firm structures that later became a liability.⁴

Compared with that of the United States, German managerial capitalism can certainly be qualified as "cooperative." Chandler has ample evidence supporting this view. But it seems to me that he sometimes tends to underestimate the severity of competition and the seri-

⁴ The Gerschenkronian idea is not incompatible with Chandler's analysis. Cf. J. Kocka and H. Siegrist, "Die hundert grössten deutschen Industrieunternehmen im späten 19. und frühen 20. Jahrhundert: Expansion, Diversifikation und Integration im internationalen Vergleich," in *ibid.*, 91-95.

ousness of rivalries between the large firms in spite of their common cartels, joint ventures, and shared bank connections. Compared with the situation in Japan, German managerial capitalism would probably appear to be highly competitive.

There is much continuity in the German system of large-scale industry, in spite of the deep ruptures of social and political history between the 1880s and the 1960s. Firms that moved first had a good chance to endure. Those at the top around 1900 were likely to be in the top group a quarter of a century later, and perhaps even in the 1950s and 1960s. Chandler describes and explains the long-term success of many "first movers" and the difficulties of the "new challengers," particularly if they came from the large field of small and middle-sized firms. Still, as Chandler knows, there was much turnover. Fifty-four of the one hundred largest German manufacturing and mining firms of the year 1887 no longer belonged to the top one hundred in 1907, and only twenty-four of them could still be found in the top group in 1927.⁵ Perhaps one should offer more explanation of why early success stories so frequently turned into stories of decline and failure.

Chandler is certainly not unaware that large-scale economic institutions *may* be unfavorable to economic growth. He remarks that real innovations frequently came from outside the large firms (p. 604). One should push this line of thought a bit farther and consider the masses of small and medium-sized firms that hardly appear in Chandler's account. Now and then Chandler admits that expansion, integration, and diversification can go too far and become obstacles to a firm's or an economy's success (for example, pp. 510, 626-27). Greater emphasis could be placed on the fact that attempts to build large-scale empires and organizations can be economically irrational. Small personal firms are not necessarily less effective than large-scale managerial firms; it depends on the circumstances.

But basically Chandler is right in stressing the dynamic role of managerial capabilities and large-scale structures and their important "independent" contributions to economic growth. They not only respond to market incentives, but they shape and influence them as well. They are not just tools of business leaders' decisions, but they develop a momentum of their own. It is Chandler's outstanding achievement to have rediscovered the firm between markets and entrepreneurs and to have reintroduced it into American economic history. It does not appear that Chandler's thought has been deci-

⁵ *Ibid.*, 84. Also see appendix C.4 in *Scale and Scope*, 722-32.

sively influenced by Max Weber, but in some respects his approach is Weberian. He has produced a masterful and unparalleled synthesis that will soon become a classic.