The Rise of Modern Business

Mansel G Blackford
Publisher:

Introduction

This book traces the development of business in Great Britain, North America, and Japan. It explains the impact of historical factors on business practices in the three countries. Business both shapes its external environment and is shaped by that environment. Economic and technological factors lead to changes in the world of business. The differing environments in the three nations have influenced the way businesses have evolved.

Preindustrial Business

By the late 1600s and early 1700s, Great Britain, North America, and Japan were either themselves unified political bodies or, as in the case of the North American colonies, parts of such a body. Political unity provided a stable framework for economic growth and business development. All three were commercial economies, where people lived by buying and selling goods. Not subsistence economies, in which people simply made goods or grew crops for their own consumption. Agriculture was becoming increasingly commercialized in all three nations. They were able to raise larger crops for their markets because of increased productivity.

An increase in trade accompanied regional specialization. Trade both permitted rational specialization and was, in turn, stimulated by it. Great Britain, North America, and Japan were all fortunate in being able to carry on trade via coastal shipping, for until the construction of canals and railroads, inland transportation was very expensive.

All the three economies were highly urbanised. Cities and towns were growing in importance. They provided a major market for agricultural goods, thus stimulating the commercialization of agriculture and the expansion of trade. Cities also became the locus of early industry.

The people were commercially oriented and well educated by the standards of their day. They were ready for industrialization.

The preindustrial period was, in business terms, the age of the merchant. In all three countries, merchants were the leading businessmen.

Great Britain

It was merchants who, as much as explorers and the military, built the British Empire, Merchants also played the most important role in developing Great Britain's domestic economy. These merchants operated in a variety of ways: as members of and investors in joint-stock companies, as members of partnerships, and as single-owner proprietors.

Much of the expansion of Great Britain's overseas trade and the new direction this commerce took between 1550 and 1650 resulted from the actions of newly formed joint-stock companies. In chartered joint-stock companies, the king as the head of state granted a charter to a group of merchants to engage in trade in a certain commodity or region. The charter often granted the merchants monopoly privileges in order to attract merchants into risky ventures. As investors, the merchants bought shares in the joint-stock companies and expected to earn dividends on their shares. London merchants were the most important investors. London was also the center of England's overseas trade. Elected directors and a governor ran each company. Joint-stock companies permitted the pooling of capital for risky ventures and served the twin goals of expanding English power and increasing private profits. The most important were the Muscovy Company (1555), the Eastland Company (1579), the Africa Company (1588), the Levant Company (1592), the East India Company (1600), and the Virginia Company (1606).

In 1720 fraud in the sale of stock in the South Sea Company led Parliament to pass the Bubble Act, legislation that placed severe restrictions on the formation and operations of joint-stock companies. Already in decline, they became insignificant in the British economy.

Important though it was, overseas trade was less vital than domestic commerce in the British economy. In fact, by 1700 domestic commerce was roughly three times greater in value than foreign trade.

To handle their growing volume of business, English merchants adopted and refined business techniques first developed by Italian merchants in the Middle Ages. An increasing number used the double-entry method. By periodically balancing their accounts, merchants could readily determine their current financial position. Merchants also used bills of exchange and promissory notes to settle transactions.

U S A

As in England, the merchant was the most important businessman in the North American colonies. The colonial American merchants were similar to English merchants in important ways. Most of the wealthiest merchants were sedentary living in urban centers. Some operated by themselves, but most commonly they were in partnership with other merchants. Joint stock companies were not important in trade, though some did exist in other fields. Like their British counterparts, American merchants used bills of exchange, promissory notes and some double-entry book keeping. But unlike their British counterparts, Colonial American merchants were general merchants, not specialists. They handled many different types of goods and took part in a wide range of commercial activities. Despite the growth of a commercial economy in North America, markets were still too small and too fragmented to allow specialization. Only in the late 1700s and early 1800s, and even then only in the largest cities, did American merchants begin to specialize.

Colonial American merchants were among the most important social and political leaders of their day, in sharp contrast to the lower status of British merchants. In fact, most colonists held the large sedentary merchants in high esteem and deferred to them as the natural leaders of society. Several factors accounted for the high social status of Colonial American merchants. America did not have a feudal tradition emphasizing landed wealth. Moreover, Puritanism, and more generally Protestantism, placed a high value on hard work and the acquisition of wealth. Many colonists viewed material success on earth as a sign of God's favor, an indication that a person was destined for heaven rather than hell after death. Most colonists viewed the wilderness of the American continent in a very negative way. The wilderness was seen as a obstacle to be conquered. Conversely, the colonists looked favorably upon business activities and farming, because they viewed them as tools to subdue nature.

Japan

Like Great Britain and North America, Japan possessed a commercial economy before industrialization. Once again, it was merchants who held this economy together.

The Japanese merchant house, was more than simply a business arrangement. Merchant houses included people related by family ties: the household and his wife, the elder son and his wife, and any younger unmarried sons and daughters. Sons might also be adopted into the merchant house. Those working in the merchant house progressed up a ladder of promotions from apprentice to clerk. As merchant houses developed, the more successful ones came to consist of a main house in Osaka and branch houses throughout Japan, all woven together by personal family ties. Reinforcing the family nature of the merchant houses were their rules and constitutions, which were commonly written down in the 1700s. These gave the houses an identity and a sense of historical continuity beyond that of their individual members.

Even more than was the case in Great Britain, merchants failed to participate fully in politics and society in Tokugawa Japan. Orthodox thinking relegated merchants to positions subordinate to other groups in society. Confucianism, as developed by the Chu His of China in the years 1130 through 1200, dominated social thought and relations in Tokugawa Japan.

Social harmony was seen as dependent on the maintenance of proper relations among four different groups - the samurai warrior administrators, peasants, artisans, and merchants. Merchants were looked down upon, because, unlike the samurai, they sought private profits, rather than the public good. Moreover, unlike the peasants or artisans, they produced no tangible crops or products.

Conclusion

Even at the end of their preindustrial periods, none of these regions possessed fully integrated and developed economies. Regional specialization and domestic trade had not developed. Despite the development of commercial economies, the pace and volume of business were still slow and low, when compared to what would later come with industrialization. The slow pace and limited output of business meant that traditional business methods - single or double entry bookkeeping, promissory notes, and bills of exchange – inherited from earlier times sufficed. Only later, as the pace and output of business increased, did businessmen need to develop more advanced accounting methods and new ways of doing business.

For the preindustrial merchant, business was a very personal affair. Personal trust was more important than business organization or managerial hierarchies in the conduct of business. This was a world of face-to-face personal contacts.

Industrialization

Industrialization changed how goods were produced in three fundamental ways. First, machines supplemented human labor in making products. Second, new raw materials that were mineral than vegetable, coal rather than wood, became the chief sources of power. Finally, labor was concentrated in central locations called factories, where workers increasingly took up specialized tasks.

All three governments indirectly encouraged economic development and industrialization by providing stable political frameworks to facilitate economic growth. The British government provided the least amount of direct aid, the Japanese the most, with the United States in the middle of this continuum.

Great Britain

By the early 1700s, Great Britain possessed a strong national government. Parliamentary action indirectly spurred economic growth and industrialization. Parliament repealed laws that restricted business enterprise, regulated how things could be made, regulated the training of workers, and limited interest rates charged by banks. However, many of these laws had been in disuse long before their repeal.

A new limited liability law passed in 1856 reversed the Bubble Act of 1720 and made capital accumulation easier. Land enclosure laws, culminating in the General Enclosure Act of 1801, made farming more productive and helped England feed its growing industrial population. Foreign trade and the development of foreign markets felt the stimulus of indirect aid from the government. The Navigation Acts, which continued to be important into the 1820s, regulated trade within the British Empire, and Britain's strong navy gave those regulations clout.

The British government did much less in terms of direct aid. It did not finance canals or railroads, for instance, unlike the American and Japanese governments. Nor did it set up model factories, like the Japanese government.

U S A

Merchants wanted a strong national government to regulate trade and settle land disputes between the states. They also wanted help in expanding overseas trade, including a navy supported by taxes. Manufacturers wanted tariffs to limit the import of foreign, especially British, goods.

A convention was called in 1787 to revise the Articles of Confederation. But instead of simply revising the articles, the delegates wrote the Constitution, which was adopted in 1789. The Constitution provided for a strong national government, broken only once during the Civil War of the 1860s. The Constitution created the presidency and a federal court system, which in the early 1800s became superior to the state courts. It increased greatly the powers of Congress. Perhaps most important for businessmen was the commerce clause which empowered Congress to regulate interstate trade. This clause prevented state governments from setting up internal barriers to the movement of goods across the United Sates. It was very helpful to businessmen who were trying to develop a national market. For the first time, too, Congress had the power to tax. Congress used taxes to support, among other things, a navy, In turn, the navy defended American trade around the globe.

Unlike in Great Britain, in America, governmental bodies offered direct aid to stimulate business growth. Most important was governmental financing of transportation improvements. Between 1815 and 1860, about 60 percent of the total investment in transportation facilities in the United States came from governmental sources. All of this was needed for the growth of large regional markets and later a national market.

Japan

In 1868 in the Meiji Restoration, the shogun was deposed and the emperor returned to power. Once in power, the samurai from Tosa, Choshu, and Satsuma realized that the only practical way to rid their land of foreigners lay in building up the economic and military might of Japan. Their new slogan became “rich country, strong military.” This goal, they thought, could be accomplished only by borrowing from the West. Western naval victories over Japanese forces in 1863 and 1864 showed that the West was too strong to be excluded immediately by force.

As part of their effort to modernize Japan, the Meiji leaders set up a new system of government. In 1871, the old han ruled by daimyo were abolished, and the country was instead divided into prefectures directly controlled by Tokyo (Edo became known as Tokyo in the early Meiji period). The daimyo, replaced by governors, were given lump sum payments in government bonds. This became an important source of investment capital for new businesses. Universal military service began in 1873. A national army based on the German model was formed. In 1876, the stipends of the samurai were abolished. Like the daimyo, the samurai were paid off in lump sums of government bonds. In 1885, a modern cabinet system of national government, under a prime minister, came into being. In the same year a modern civil service was put in place. Finally, in 1889, a constitution emphasized the prerogatives of the emperor and his role as the source of authority in Japan, thus stressing the duties of Japanese subjects to their nation. The constitution created a two house assembly called the Diet. A lower house, the House of Representatives, was elected. An upper house, the House of Peers, was appointed.

Conclusion

The establishment of strong national governments provided political frameworks conducive to economic and industrial growth. Either indirectly or directly, the national governments stimulated industrial growth and business development. The similarities in the actions of the governments of Great Britain, the United States, and Japan, especially those of the Japanese and American governments, outweighed their differences. As latecomers to industrialization, when compared to Great Britain, America and Japan found it necessary to rely more on government to facilitate economic growth. Both nations, used government funding to build much of their infrastructures, especially the transportation networks needed for the creation of domestic markets.

The Japanese government of the early Meiji times was particularly active. But the authors emphasise that its role should not be overemphasized. The government role was not much more than that of government in the United States. The three national governments were also active in opening overseas markets for industrial goods, especially those of Great Britain and Japan. Foreign markets became important for America’s industrial goods only in the 1890s and later.

Industrialization was a complex and lengthy process. No single five-, ten-, or even twenty-year period can be singled out as the time when Great Britain, America, or Japan achieved sustained industrial growth. Industrialization was achieved over longer periods of time: from 1760 to 1840 in Great Britain, from 1820 to 1890 in the United States, and from 1870 to 1920 in Japan. It was the interaction of different elements, not one single factor that led to the industrialisation of these nations.

The availability of capital, to build the factories and machinery so necessary in putting raw materials to work, and the possession of raw materials and energy sources, ensured Great Britain’s nineteenth-century primacy as an industrial power. There was no shortage of capital. One reason was that early industrialization did not require much capital.

It would be wrong to overestimate the role of governments. Between 1868 and 1886, the Meiji government invested about 150 million yen in industry, but during those same years, Japan’s gross national product (GNP) amounted to between 400 million and 800 million yen per year. Most of the capital for industry came from private sources. The former daimyo and samurai invested much of the funds given to them by the Meiji government in banking and other business enterprises. Wealthy landlords and merchants invested in banking, industry, and transportation projects. Merchants were a less important source of capital for new industries in Japan than in Great Britain or the United States, however. In fact, many of the leading merchant houses of the Tokugawa period lacked the flexibility to survive the disruptions of the Meiji Restoration and make the transition from preindustrial to industrial times. It was lower-level merchants, more than members of the great Tokugawa merchant houses, who invested most heavily in industry.

In Great Britain, two markets were significant. The domestic market was growing. The population of England increased dramatically in the late 1700s and early 1800s.

Moreover, because income was fairly equitable in its distribution, these people had money to spend on industrial goods. Transportation improvements linked this consumer market. In the 1780s and 1790s, turnpikes began joining different regions. At about the same time a mania for canal building swept Great Britain. By 1800, navigable water routes and good roads linked the emerging industrial centers of the North to those of the Midlands, the Midlands to London, and London to the Atlantic. Still later came railroads.

Railroad trackage increased from a few miles of mining lines in 1825 to 6,300 miles twenty-five years later. Although still partially segmented by regional preferences and tastes, a national market was developing in England. Europe and the British colonies formed the country's second market of significance. Most of Great Britain's exports came to consist of industrial goods, whereas earlier they had been agricultural products. Overseas markets were especially important outlets for cotton textiles.

In the United States the development of a national market was of utmost importance. In the nineteenth century, transportation improvements created in the United States the largest free trade area in the world. Turnpikes like the National Road were less significant than canals. Even more than in Great Britain, America possessed a market-oriented population eager to buy the industrial goods made available by these transportation improvements. America's population rose from 4 million people in 1790 to 31 million in 1860, and to 106 million by 1920.

Both domestic and foreign markets consumed Japan's industrial products. Japan's population rose from roughly 36 million people in 1878 to 56 million by 1920, creating the beginnings of a national market for industrial goods. Moreover, transportation improvements, as in the United States and Great Britain, began unifying this market as time went on. By 1906, some 6,000 miles of railroads had been constructed. In addition to the domestic market, foreign markets were very important for Japan.

The Rise of Big Business in America

American industrialists achieved high-volume, low-cost production in the processing of liquids, agricultural goods, and metals after the Civil War. This accomplishment of mass production, encouraged by the existence of a large national market and made possible by technological breakthroughs, led to the rise of big business. America was the first nation to have an economy dominated by big business. In Great Britain and Japan, big business came later.

Through vertical integration, big businesses in America combined mass production with mass distribution. Horizontal integration also enabled American industrialists to structure their big businesses. The aim was to decrease competition and control the vicissitudes of the national market. Mergers became increasingly common from the 1880s onwards. Between 1894 and 1905, over 3,000 individual firms capitalized at more than $6 billion merged in the United States.

American businessmen formed something of an elite in the late 1800s and early 1900s. Most big businessmen were native born, white, from the city, of middle-class rather than working-class origins, and well educated by the standards of their day. In terms of motivation, most were individualistic and materialistic. They believed in their right to make money. Most viewed the actions of their companies as helping American society as well as themselves.

Money was the common denominator that provided access to the upper reaches of American society for the nation's newly rich railroad barons and industrialists. Titles of nobility or the possession of a generations-old family name counted for less in the United States than in Europe. Through conspicuous consumption – using their wealth to build mansions, acquire art, buy private railroad cars, and host lavish parties – America's big businessmen could buy their way into society.

Despite the rapid growth of big business, small businesses continued to do well in some fields – in wholesaling and retailing and in some areas of manufacturing, such as furniture making, lumber, publishing, and the garment (clothing) trades. In fields where the production processes were simple and where no special marketing skills were required, small businesses continued to thrive and market forces continued to be important.

British Business during Industrialization

The impact of industrialization on the business firm in Great Britain differed considerably from that in the United States. Big business arose in Great Britain, but more slowly and assumed somewhat different forms than in America. Particularly noticeable, when compared to the United States, was the lack of vertical integration in British business.

Despite its continuing growth, the domestic British market was smaller and less prosperous than that of the United States. Moreover, Great Britain's national market was more segmented by regional tastes and preferences than was the American market. Foreign markets were more important for British businessmen than for their American counterparts. Well into the twentieth century, foreign markets took about one-third of Great Britain's industrial output.

In short, the large unified national market that did so much to stimulate the rise of big business in American manufacturing was not present to the same degree in Great Britain. Great Britain also possessed a much more detailed and better established system of wholesalers and retailers than did the United States. These marketers were able to sell the expanding output of Great Britain's factories, in Great Britain's markets which were more geographically unified in large cities. Thus, British manufacturers did not feel the need to integrate vertically by setting up their own marketing outlets.

In the United States, the Sherman Antitrust Act of 1890 outlawed cartels and, thus, ironically encouraged formerly independent companies to merge and from big businesses. However, no such legal prohibition existed in Great Britain. Small British firms could gain many of these benefits available to American companies by simply joining cartels. This helped preserve small industrial firms in Great Britain.

Finally, social attitudes retarded the development of big business in Great Britain. More than in the United States, an anti-business bias lingered. From the 1805s on this bias was reinvigorated, in Great Britain.

Industrialization affected management methods and firm structures in Great Britain less than in the United States. Because British companies were smaller and their operations less complex, they simply did not have to change as much. There was less separation of ownership from management in Great Britain than in the United States.

The development of cotton textiles companies typified much of the British business experience during industrialization. Cotton textile companies generally remained small and unintegrated throughout the nineteenth century and well into the twentieth. Small businesses dominated cotton textiles. Capital requirements were relatively low. Only a few thousand pounds were required to set up a mill as late as the 1790s. Second, vertical integration was not needed, allowing cotton textile companies to remain small. The industry was composed of many small, specialized companies performing just one step of the manufacturing process. This trend toward specialization increased as the twentieth century progressed. As late as 1964, the British cotton textile industry remained a mainly unintegrated industry with a shrinking share of the global market. Only in the past three decades has integration occurred.

Even among the largest big businesses in Great Britain, family ownership and management long remained more common than in the United States. As late as 1930, 70 percent of Great Britain's two hundred largest companies still had family members sitting on their boards of directors. Even after the British merger movement, most of the resulting big businesses were more loosely organized than their American counterparts.

Great Britain's early industrialists were a diverse lot coming from many backgrounds, but men with mercantile links predominated. Within this group there was probably less social or geographic mobility than among business leaders in America. Rags-to-riches stories were less common than in the United States. Most business leaders came from middle-class origins, not from working-class families. As in the United States, businessmen formed something of an elite in Great Britain.

As in earlier times, social esteem was more difficult for businessmen to win in Great Britain than in America. The country ideal permeated much of British life and thought, influencing even the ideas of some business leaders.

Men of talent went, not into business, but into other occupations such as the civil service. Or, if they did enter business, they went into finance, insurance, and the like – not manufacturing. While building up the "City" of London as a global financial center, this tendency eroded Great Britain's industrial dominance.

Japanese Business during Industrialization

Few of the important merchant houses of the Tokugawa period made successful transitions into the new industrial times of Meiji Japan. Mitsui and Sumitomo did adjust and, indeed, flourish in the new circumstances, but they were exceptional. Most of the merchant houses failed to make the shift and declined in significance.

Businessmen taking advantage of the new opportunities of the Meiji period to go into shipbuilding, railroads, manufacturing, and banking did so increasingly through the formation of joint-stock companies.

Many of the largest businesses in the early and mid-Meiji period were single-industry businesses. These firms became even larger as a result of a merger movement influenced by a similar trend in the United States.

These and most other Japanese industrial companies were not as highly integrated as American big businesses. The Japanese firms were more like the British ones. There were several reasons for this relative lack of vertical integration. Japan had a well-developed marketing system from the Tokugawa period. So manufacturers did not have to set up their own marketing networks. Japan's national market was smaller than America's, allowing established marketers to handle adequately the goods bound for that market. For ideological reasons as well, manufacturers did not want to enter marketing, which they viewed as less virtuous than manufacturing. Thus, fully vertically integrated companies were not the norm in Japanese manufacturing.

Large diversified companies called "zaibatsu" came to dominate industry and some other fields of Japanese business in the opening decades of the twentieth century. The zaibatsu were much more diversified than big businesses in Great Britain or the United States. Zaibatsu were composed of manufacturing ventures (typically in both light industries such as silk reeling and cotton spinning and heavy industries such as shipbuilding, mining, chemicals, and iron and steel making), a bank to finance those concerns, and a trading company to sell the products overseas.

Of special importance in the rise of the zaibatsu and the growth of the Japanese economy in general was the development of trading companies called sogo shosha. These trading companies were established to handle the foreign trade of zaibatsu. The trading companies did more than trade. They provided much of the knowledge of foreign technologies and business practices, managerial expertise, and some of the capital needed to organize Japan's fledgling industrial companies and make them competitive in the world marketplace.

In the larger Japanese companies, especially the joint-stock companies, bureaucratic management began replacing personal management as time progressed. In their administrative management, the zaibatsu typified the trend toward bureaucratic management. In the 1890s and early 1900s, the zaibatsu operated as fairly loose confederations of companies owned by family groups. In the 1910s and 1920s, a considerable degree of centralization of managerial control over the different enterprises composing a zaibatsu occurred. Most of the zaibatsu came to consist of a center company organized as a family partnership and other companies, sometimes called "core companies" – the bank, trading company, mining ventures, and manufacturing enterprises – that were often joint-stock companies whose shares were owned by the center company. The core companies, in turn, often owned many smaller companies as their subsidiaries.

Businessmen in Tokugawa Japan ranked behind other groups in the nation's social order. Samurai, peasants, and artisans all ranked ahead of merchants in Japan's four-class system. This situation changed in Meiji Japan. The public image of businessmen improved. This new heightened image of the businessman was partially reconciled to the older Confucian ideals. The creation of industries came to be seen by some Japanese as a service to the state, because they thought new industries would, make Japan strong. Some Japanese political and economic leaders began to view businessmen as the new samurai of their nation.

As in Great Britain and the United States, Japan's businessmen formed something of an elite. Few farmers or laborers rose from rags to riches by going into business in Meiji or Taisho (1912-26) Japan. More and more top managers of large companies were college graduates.

With the development of zaibatsu such as Mitsui and Mitsubishi, big business arrived in Japan. As in the United States, the rise of big business changed Japanese business firms. Large businesses began adopting bureaucratic management systems. Family control remained strong longer in Japan than in the United States. In this respect, Japanese big businesses resembled their counterparts in Great Britain more than those in America.

The growth of big business also led to the development of the dual economy in Japan. Large, efficient firms geared to the export market came to dominate the smaller, less efficient companies serving only the home market. This trend started in the early 1900s, continued to grow with the accelerating development of heavy industry in the 1920s and 1930s, and remains a key characteristic of the Japanese economy today.

Business during the Interwar Period

USA

The sharp postwar recession revealed basic deficiencies in the management of big business in the United States.

The recession showed that most of the top managers of big businesses were still so bogged down in the daily affairs of their companies that they were not planning for the future. None had any plans to handle drops in the demand for their products. This lack of foresight made it difficult for the businesses to respond quickly to new market conditions. Companies as diverse in their operations as Good year Rubber, Ford, General Motors, Armour Meats, Dupont, and Sears Roebuck encountered severe problems stemming from the recession.

In coping with their problems, some businesses developed decentralized management systems. The head office increasingly concentrated on planning for the entire company and in coordinating the operations of all of the different parts of the company. The daily operations of the company were delegated to managers of divisions, organized around product lines or geographic regions. As part of their reorganization, these diversified big businesses improved greatly their accounting systems, financial controls, and market forecasting.

The spread of large companies with decentralized management systems accelerated the trend toward concentration and oligopoly in the United States. America experienced its second major merger movement in the 1920s. 5,846 mergers occurred between 1925 and 1931. Industrial production became increasingly concentrated in the factories of big businesses.

As big businesses began maturing in some industries, the separation of management and ownership increased. From the 1920s on, big businesses came to be run more and more by managers who owned little stock in their companies. Because they no longer owned the companies they ran, these managers questioned whether simply trying to earn maximum profits should any longer be their business goal. In searching for new identities and new sources of approval for their actions, many corporate managers began looking upon themselves as professional men.

Businessmen meant two things when calling themselves professionals. First, they had the technical expertise, the competence, needed to operate the large complex business growing up across the land. And second, they were more than money-grabbing profit seekers. Like clergymen, doctors, and lawyers, they wanted to be seen as serving society.

One reason for the merger movement of the 1920s and for a more general business rationalization movement, an attempt to make some businesses more efficient and productive, in the same decade was that the federal government favored them. Historians often label the nature of government-business relations in the United States in the 1920s "associationalism." During World War I, government officials and businessmen worked together through government agencies. After the war, Herbert Hoover, as secretary of commerce, sought to extend government-business cooperation. In trying to solve the problems of the Great Depression, President Franklin D. Roosevelt, built in part upon the foundations of government-business cooperation laid by Hoover.

Government-business cooperation reached new heights during World War II, as businessmen and government officials worked together in a myriad of federal government agencies, to ensure the successful mobilization of industry for the war effort. Big businesses benefited more than small ones from wartime government contracts. Interested in having war materials produced as quickly as possible, government officials found it easier to work with a relatively few large companies than many small ones. This unintentional favoritism shown to big business furthered the tendency toward concentration in American industry. Whatever the long-term social costs may have been in encouraging the development of big at the expense of small business, federal government spending on the war ended the Great Depression, as unemployment finally dried up in 1942.

Britain

In the interwar years the formation of large companies accelerated in Great Britain, and big business became a significant force in the British economy. With the rise of big business, the nature of the business firm and its management began changing and has continued to do so to the present day.

In Great Britain, as in the United States, some government actions favored business rationalization. During World War I, the British government cooperated closely with businessmen in planning and financing the work of industrial companies. The government encouraged business to adopt efficient mass production methods. This stimulated merger activity, as firms sought to expand their production capacities. After the war the government allowed mergers to continue.

The British businessmen were, however, not totally successful in their efforts to improve the efficiency of industry. The feeling that business, and especially industry, were somehow “dirty” hindered the full development of a business rationalization movement.

As British companies grew in size, their nature changed. During the interwar years, a divorce of ownership from management became more common, though still not as common as among big businesses in America. Inheritance taxes initiated in 1894 made it more difficult than in the past to pass on total financial control of a family firm from one generation to the next. Bureaucratic management also continued to develop, but again at a slower rate than in the United States. Many big British businesses remained loosely run confederations of formerly independent companies with little central direction or coordination. However, as time progressed, more companies established centralized management systems based on strong head offices.

Despite the changes taking place in management, there was little professionalization of business in Great Britain. Britishers did not look upon businessmen as professionals like clergymen or doctors. The respect given to businessmen by the general public in the United States was not as forthcoming across the Atlantic. Profit-seeking businessmen suffered from low public esteem.

Japan

World War I brought an economic boom to Japan, as Asian markets were thrown open by the inability of western nations like Great Britain to supply them with goods. However, this boom collapsed in 1920, and Japan was caught up in the worldwide postwar recession.

Economic recovery in the mid-and late 1930s revolved around two developments. The first was a revival of Japanese exports when the country left the gold standard and devalued the yen in 1931. Government spending on industrial goods was the second major element in Japan’s economic recovery.

The growth of heavy industry was a particularly noticeable aspect of economic recovery in Japan. The collapse of foreign markets for silk, cotton, and other products of light industry combined with military purchases of steel, chemicals, machinery, and the like to build up heavy industry. As late as 1928, light industry accounted for more than twice as much of Japan’s total industrial output as did heavy industry, but by 1935 heavy industry had become more important than light industry.

As in Great Britain and the United States, a business rationalization movement took place in Japan during the interwar years, as political and business leaders tried to deal with economic shocks and recession. At the level of the individual firm, many companies redesigned their factory layouts, imported new technologies, and standardized production methods to improve their production efficiencies. At the industry level, companies joined cartels to fix prices and limit production. The Japanese government backed the formation of cartels to make Japanese business strong in world trade. A Major Industries Control Law of 1931 sought to create a cartel for every large-scale industry. By 1932 Japan possessed thirty-three cartels in heavy industry, thirty-one in chemicals, eleven in textiles, eight in food processing, and eighteen in finance. The cartels varied in their effectiveness.

As Japan's economy changed, alterations also occurred in the nature of its business firms, especially that of the large ones. The interwar years saw the development of "new zaibatsu," business complexes firmly based on heavy industries. The new zaibatsu were less diversified than the older zaibatsu like Mitsui and Mitsubishi, often lacking their own banks or trading companies.

Despite their growing association with the Japanese government's military efforts, businessmen dropped in public esteem during the interwar years. The leaders of some of the zaibatsu, in particular, came under intense criticism from some quarters for supposedly following their own interests to the detriment of the Japanese nation. The zaibatsu were also accused of corrupting politics.

The anti-zaibatsu sentiment had some influence on business. The zaibatsu made voluntary donations, actually forced gifts, of money to the Japanese government. And, at the request of the government, some accelerated their movement into heavy industry. The government also used public dissatisfaction with business and the needs of war to increase its authority over business.

More than individual companies changed during the interwar years. The business systems of each nation were altered as well. Government-sponsored or permitted rationalization movements encouraged merger movements and the continued growth of big businesses in the three nations, and the wartime spending policies of the nation also favored the development of big business. As in the past, the involvement of government in business affairs went farthest in Japan. As a result, the differences between large and small businesses that had begun to show up with industrialization grew more pronounced in the interwar period.

Business in the Postwar Years, 1945-1973

While it lasted, the open international political framework set up by Bretton Woods and GATT helped fuel economic growth in the United States, Great Britain, and Japan. However, in relative terms, the nations fared differently. In 1950, the United States accounted for 39 percent of the world's gross national product (GNP), whereas twenty years later it accounted for only 30 percent. The comparable statistics for Great Britain were 5 percent and 3.6 percent. By contrast, the European Community and Japan produced 12.6 percent of the world's GNP in 1950, but 21 percent by 1970.

USA

As in earlier times, the federal government actively promoted business development. Most of the financing for airports and interstate highways came from the federal government, for example. At the same time, the federal government continued to regulate businesses through a host of independent regulatory agencies, such as the Securities and Exchange Commission established in 1934.

In the 1960s, legislation in such areas as civil rights, consumer protection, and environmental protection began changing the nature of relationships between business and the federal government. Previously, most federal legislation dealing with business had been industry-specific, with each new law and new federal agency affecting only one industry (such as the Interstate Commerce Commission, which regulated railroads). Now new legislation – such as the Civil Rights Act of 1964 (which prohibited discrimination in hiring), the Air Quality Act of 1967, the Clean Air Act of 1970, the Water Pollution Control Act of 1972, and the Warranty Act of 1975 – cut across industry boundaries to affect a broad range of businesses.

As a result of both favorable governmental policies and business actions, the US economy boomed during the first twenty-five years after World War II. Between 1945 and 1960, America's GNP increased by 52 percent, and the nation's per capita GNP rose by 19 percent. Then, in the 1960s, the GNP of the United States climbed 46 percent, and the per capita GNP grew by 29 percent. This economic growth resulted in part from America's seemingly insatiable demand for consumer goods – television sets, cars, and household appliances and (increasingly) for services. The growing involvement of American business in the world market also contributed to growth.

A growing proportion of businesses chose diversification as their growth strategy. An increasing number entered foreign markets for the first time. More set up overseas manufacturing operations to become multinational corporations. Those emphasizing the domestic market also diversified. As they did so, American companies often adopted decentralized, multidivisional management systems.

Multinational corporations (MNCs), were a major response of American businessmen to expanding business opportunities around the world. By 1970, over 3,500 American companies possessed direct foreign investments in some 15,000 overseas enterprises. In that year, the direct foreign investments of American companies amounted to about $78 billion, or roughly 8 percent of the nation's GNP.

American MNCs changed their management structures as they adapted to the new global situation. They established what they called "worldwide," "global," or "cosmopolitan" management systems. With these new management systems, formerly independent foreign divisions were integrated more fully into the companies than before. Often new divisions based on product lines cut across national boundaries.

Conglomerates were a new form of business diversification that appeared in the United States during the postwar years. Conglomerates had many different divisions and produced and sold unrelated goods and services. Conglomerates became a major part of the American business scene in the 1960s. In 1966, about 60 percent of all mergers in America were conglomerate-type mergers. By the end of that year 46 of the nation's largest 500 industrial companies were conglomerates.

The spread of conglomerates and MNCs, together with development of more traditional big business, continued a trend begun in the mid-nineteenth century. A relatively few big businesses came to dominate key segments of the American business system, especially in manufacturing. By 1962, the 50 largest companies possessed over one-third of America's manufacturing assets, the top 500 over two-thirds.

As in the past, the individuals who managed America's big business remained something of an elite. Moving from rags to riches remained difficult.

Britain

During the late 1930s and 1940s, the main thrust of British business was to avoid competition through collective action. This left companies poorly prepared for the intense global competition of the postwar years.

The major change in the business environment faced by British firms in the postwar years was a tremendous increase in domestic and international competition. Reversing its earlier position, the government sought to encourage business competition through new laws: the Monopolies and Restrictive Practices Act of 1948, the Restrictive Trade Practices Act of 1956, and the Restrictive Trade Practices Act of 1968.

British business faced growing competition in world trade as well. Due to national independence movements in former colonies such as India, British businessmen lost most of their heavily protected empire market, which had been a major outlet for British goods before World War II. At the same time, Great Britain's adherence to the Bretton Woods Agreement and the GATT placed the nation's relatively high-cost, low productivity industries at a competitive disadvantage in world markets. In 1952, Great Britain controlled 22 percent of the world's trade in manufactured goods, but by 1969 it held only 11 percent.

British businessmen responded to the increase in competition by renewed rationalization. A major merger movement began in the 1950s and, like America's conglomerate movement, peaked in 1968. Although generally favoring competition, the British government encouraged some of these mergers in the hope of making British companies more competitive in world trade. Although they did not produce the economic efficiency hoped for, the mergers did increase the power of big business in Great Britain during the postwar years. British companies became large even by international standards.

Pushed by competition and pulled by new market opportunities, British companies diversified. By 1970, 94 of Great Britain's largest 100 companies had diversified to some degree. Diversification came later to Great Britain than to the United States and, was also slower to spread. Family-held firms which remained stronger longer in Great Britain than in America were reluctant to diversify.

Great Britain's diversified, decentralized companies possessed structures like those of similar companies in America. General managers in the corporate office, advised by staff officers, made the policy decisions. Divisional officers ran the daily operations. However, there were differences. Divisional managers in British companies often took part in the policymaking process, not just operations. This situation raised some doubt about their objectivity in measuring the performance of the various divisions of companies. Moreover, financial controls were not as well developed in Great Britain. Annual budgets were not the control devices they had earlier become at American companies like General Motors. Most significantly, managerial hierarchies were less fully developed in Great Britain.

Japan

The worldwide movement toward free trade helped Japanese firms increase their imports and exports. With large parts of the world available as sources of raw materials and as markets for its finished products, Japan, now stripped of its colonial possessions could survive and prosper. The GATT was of particular importance. While reaping the benefits of markets open to its goods, Japan was able to restrict foreign investments in its companies and limit the entrance of unwanted goods into the Japanese market until the 1970s and 1980s.

As the Cold War began, American leaders revised their attitudes toward Japan. They sought to revitalize Japan as a bastion of democracy and capitalism in the Far East, especially after the communists won control of China in 1949. Americans also desired an economically strong country that would be able to import goods made in America (Until 1968 the United States enjoyed a trade surplus with Japan). In the 1950s, the zaibatsu were allowed to reorganize. The anti-monopoly law was ignored. Most American leaders favored an extension of Japanese exports throughout the world. American military expenditures in Japan, especially for the Korean War, allowed the Japanese to finance a major increase in their imports.

Businessmen rationalized their companies in the early twentieth century by, among other things, cutting back on wages and firing unwanted workers. The workers responded by forming unions and striking. In 1919, some 187 labor unions existed in Japan, and 497 major labor disputes occurred. To blunt labor radicalism and to increase the loyalty of scarce skilled workers, the managers of some big businesses began instituting in the 1920s and 1930s a system of life time employment as well as seniority based wages and promotions. This system spread further during World War II. The government abolished labor unions, replacing them in each company with Patriotic Industrial Associations consisting of representatives from both labor and management. These associations were the predecessors of the enterprise unions of the 1950s and 1960s.

Lifetime employment and seniority-based wages and promotions became still more firmly entrenched in the postwar years, as management and labor saw that the system was beneficial to both groups. Businessmen obtained the labor stability that they needed for faster growth. Labor received increased security, wages, and benefits. Even so, this system was limited to a small fraction of workers and managers, essentially male employees who worked on a permanent basis for big businesses. Smaller companies, temporary workers, and most women employees were not part of this employment system. The system fostered cooperation between management and labor and was useful to business development, especially in large companies geared to the export trade.

Continuity, more than change, characterized government-business relations and the regulatory framework in the years before and after World War II. Many of the specific laws by which MITI guided Japan's economic growth in the 1950s and 1960s had important predecessors in the interwar years. In the 1950s and 1960s, government-business cooperation was more pronounced and consistent in Japan than in other nations. With militarism discredited, the Japanese government set economic growth as its number one goal and took steps to bring it about.

The central and prefectural governments improved Japan's economic infrastructure: harbors, highways, railroads, electric power grids, and so forth. Government banks loaned funds to large private city banks which, in turn, disbursed loans to businesses. The heavy dependence on bank borrowing encouraged a long-range point of view towards business, as bankers did not demand immediate returns on their investments. Legislation enacted in 1949 and 1950 and liberalized only in the late 1960s and 1970 limited imports into Japan and restricted foreign investments in the nation. A 1952 law gave subsidies and quick tax write-offs to companies investing in new equipment and research. An income tax reduction in 1956 stimulated consumer spending.

With economic growth came changes in the shape of the Japanese economy. The shift from light to heavy industry, begun in the interwar years, accelerated in the 1950s and 1960s. Agriculture and small businesses failed to participate fully in the prosperity of the large manufacturers who produced for export markets. In general, manufacturers gained more than wholesalers or retailers.

Japan continued to develop a dual economy. Small and medium-size businesses (those with no more than three hundred employees) remained very important to the Japanese economy, making up over 99 percent of all of the companies. However, their position relative to big businesses worsened as time went on. Small manufacturers often lost their independence, as they increasingly became subcontractors to big businesses. (The importance of subcontracting differentiated the Japanese system of manufacturing from the American one. In the United States, large manufacturing companies were more vertically integrated and less dependent on subcontracting.) Increasingly, the larger companies dictated the terms of doing business to the smaller firms. In times of recession the subcontractors suffered most, accepting price cuts for their products and laying off employees. As a consequence, wages and productivity were usually lower at subcontractors than at the mother companies.

Overseas production facilities were first established during the 1950s and 1960s. The direct foreign investment of Japanese firms climbed from $447 million in 1961 to $1.45 billion just six years later and then soared to $3.5 billion by 1973. The sudden increase in Japan's overseas investments in the late 1960s and early 1970s came mainly from investments in the United States, especially in the commercial and service sectors of the American economy.

Economic advances also made possible business experimentation within Japan, as businessmen revitalized old companies and started new ones. Typical of the rebirth of entrepreneurship in Japan was Honda Motors.

Like the companies themselves, Japanese business management methods were diverse. In the entrepreneurial firms, the word of the owner-founder was law. In many of the large business groupings, however, consensus decision making was more the norm. Ringisei, (group decision making) and (informal discussion and consultation that occurred in a Japanese company before a formal proposal is presented) became common.

From the Seventies into the Eighties

Part of the reason for the relative decline of British business, especially industry, had to do with public attitudes. Despite being the first country to industrialize, Britain never fully accepted the Industrial Revolution and the new business firms created by it. For many Britishers, Great Britain continued to be, at least in the ideal sense, a land of history, tradition, and countryside. In fact, the ideal of a country life, supposedly simple life of natural beauty and of harmony between different groups of people, was reinvigorated from the 1850s onwards. Business and industry, came to be seen as money-grabbing and undesirable. This attitude continued into the 1970s and 1980s.

In general, British management remained parochial. There was a lack of breadth and an unwillingness to take risks. Perhaps because of these characteristics, British businessmen placed too much emphasis on trying to sell in the country's former colonial markets, while not paying enough attention to potentially richer markets elsewhere. British businessmen also tolerated production inefficiencies, to the extent that on average British businesses used twice as much labor as similar American companies to do the same jobs. British businessmen never adjusted their production methods to the needs of large national and international markets, unlike their American and Japanese competitors.

Various factors contributed to the decline of Great Britain's industrial research and development efforts. British companies failed to set up their own research laboratories. In 1933 some 116 of America's largest 200 industrial companies possessed research laboratories, but only 20 of Great Britain's top 200 firms had them. The respective figures for 1948 were 164 and 40. British firms relied primarily on outside consultants to perform their research, a much less effective and productive approach, compared to internally performed research.

Government policies also hampered the research efforts of British firms. Encouraged by the British government, businesses pooled their research efforts during World I. The first research associations were set up in 1918. Though funded by both the government and private industry, these associations did not accomplish much. Research needs to be company-specific to be fully effective, and the research associations were not.

Britain's system of education, especially in engineering, hindered research as well. Great Britain had a far lower proportion of its population enrolled in places of higher learning than the United States. Engineering education, stressed at many of America's state-supported universities, too often received scant attention in Great Britain. In the postwar years, a "brain drain" of British scientists, and academics to America started.

In the U S., businessmen failed to reinvest enough of their companies' earnings as capital improvements. Moreover, when capital improvements were made, they were too often made in a hasty, "add-on" manner that failed to increase the overall operational efficiency of the plants. Rather than building new, efficient factories from the ground up, businessmen simply added onto existing, often inefficient installations.

The shortsightedness of American businessmen was a major factor in the lack of adequate capital investments. Several reasons accounted for their short-run point of view. With the divorce of ownership from management in most large American companies, most executives came to have less of a personal stake in the long-term success of their companies. Advancement within their companies often depended on tangible evidence that their firms were performing well. So the emphasis was on maintaining or raising profits, dividends, and stock prices every quarter. The vulnerability of most large American corporations to hostile takeovers by other firms also prompted corporate managers to take a short-term approach to business. Corporate officers spent much of their time and effort fending off unwanted takeover bids. Higher dividend payments were made to keep stockholders happy so that they would not sell out to corporate raiders. The problems of managerial shortsightedness and the obsolescence of production facilities were particularly pronounced in basic manufacturing.

In a sense, the shortsightedness of America's business leaders simply reflected the shortsightedness of American society generally. In the twentieth century, and especially in the years after World War II, America became a consumer-oriented society. Emphasis came to be placed on the instant gratification of desires rather than on saving for the future. With consumers spending much more than they were saving, few funds were available in banks for business borrowing, making corporate capital improvements difficult.

Japanese businessmen took a long-run point of view toward their business affairs. Whether working for entrepreneurial or bureaucratic companies, the managers were interested in more than the short-term profitability of their firms. The Japanese businessmen also wanted their companies to be profitable. However, they tended to view profits as a natural result of their long-term approach to business, rather than as something to be sought on a quarterly basis for their own sake.

The spread of affluence changed attitudes toward work that, in turn, reshaped relations between workers and their companies. At the same time, the economic slowdowns of recent years, combined with the aging of their workforces, prompted many company managers to reexamine their labor relations system. With the coincidence of these forces, businesses moved away from systems of industrial relations based on lifetime employment and wages and promotions based on seniority.

More than in the past, Japanese workers in the 1980s tended to view their jobs, not as ends in themselves, but as means by which to acquire money and leisure time. Families began to take precedence over companies for many workers, and loyalty began to erode.

Conclusion

Great Britain, America, and Japan all possessed expanding commercial economies, not stagnant economies, in preindustrial times. When compared to the economies that developed with industrialization, these preindustrial economies were primitive. The low volume and slow pace of business allowed merchants to carry on their businesses in traditional ways. Personal trust based on family ties and friendships was the key to preindustrial business. Business was a personal affair devoid of managerial hierarchies. Few big businesses existed.

Industrialization quickened the pace of economic life. The Industrial Revolution both dramatically speeded up the production of goods and increased their output exponentially. As companies sought to cope with this increased throughput, big business began developing. Because of differences in the politics, cultures, and social systems of the nations, as well as some economic differences, big businesses developed at different paces and took different forms in the United States, Great Britain, and Japan.

In Great Britain, the United States, and Japan, large and small businesses characterized by major differences developed. However, the differences were most pronounced in Japan’s dual economy. Subcontracting by small firms for larger companies, with the smaller concerns in decidedly subordinate positions, became most common in Japan.