

## Comments on "Organizational Capabilities"

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I am pleased to comment on Bill Lazonick's paper. I have been reading a number of his papers in recent years--including his interesting essay on "Theory, History, and the Capitalist Enterprise." I always learn something new from his publications and begin to see some familiar business developments in a different light. Today's paper is no exception to that rule.

This is, however, a different type of paper than the ones he has been writing of late. Most of his recent work has been targeted on his fellow economists whom he has been urging to develop a non-market, evolutionary approach to the theory of the firm. He has called upon economists to abandon the basic industrial organization--that is, market-oriented--theory and work out a theory of the innovative firm, a subject upon which he touches in this present paper. Not one to issue vague calls to duty, Lazonick has started to chart some of the rudiments of a theory of the innovative firm.

Will this generation of economists and the next generation that they are training respond to his challenge? I doubt it. I say that even though I believe he is fundamentally correct in his evaluation of the limitations of the IO approach, a subject on which I touched in "What Have CEOs Been Doing?" *Journal of Economic History*, 48, June 1988. Why then do I believe the response will be sluggish at best? In part because the economists probably will respond to change pretty much as General Motor's management has and for some of the same reasons. After all, today's economists have a heavy investment in current-day techniques. Sunk costs, so to speak. There are jobs to think about. The all-important marginal distinctiveness of the discipline. Nobel prizes, no less.

But in the case of economics today, there is an even more powerful force militating against basic change in the underlying theory (and ideology) of the field. Those scholars addicted and fully committed to the theory of markets have every reason to believe in recent years that economic reality in every corner of the world is edging ever closer to economic theory. It is easy, I think, for economists to ignore the problems of prediction that have surfaced when their discipline is having a dramatic impact on public policy in the United States and abroad. The swing to the right, to markets and away from central controls and equity-oriented systems, is one of the major political phenomena of our time. So I expect to see at least a

decade of exaltation of the market in economics--a subject to which I will return.

My intermediate conclusion is, however, that it is a good thing that Lazonick is now preaching to the converted--that is, to business historians--rather than to the economists, almost all of whom worship at different temples than we do. What, then, does Lazonick give us in this current paper? The basic ideas are consistent--entirely consistent--with those of Alfred D. Chandler. Lazonick, like Chandler, stresses the development and overwhelming importance of large corporations; we learn again that the railroads led the way in American business and economic development. Episodes of horizontal and vertical integration were crucial because they led to increased efficiency, in part by accelerating throughput. Never mind that the corporate leaders had much to say about other objectives. Efficiency, Lazonick says, was the key motive. On this base, large industrial corporations built new research and development organizations that gave them a continuing edge in the process of innovation. In short, these industrial giants became masters of scale and scope.

But to this familiar historical landscape, Lazonick has added some new and interesting elements. Labor for one. He offers a description of the emergence in the United States of a distinctive pattern of adversarial labor relations, culminating in the so-called New Deal settlement that lasted from the 1940s to the end of the 1970s. I am pleased to see this subject appended to business history (in part, I suppose, because Joseph Pratt and I tried to do the same thing in *The Rise of the Corporate Commonwealth*, (New York, 1988). Lazonick also adds the educational system, with its tight links through professional schools, endowments, boards of trustees, state budgets, and the like, to business. He even has added the federal government in the post-World War II era, another distinctly non-Chandlerian touch. He puts these several elements together to explain the post-war success of the U. S. corporate commonwealth.

There is more. Lazonick goes beyond the period of American corporate triumph and deals with the nation's recent economic problems. He provides us with a succinct explanation of why the "American Century" ended so abruptly. Then (in only a few pages!) he manages to sketch out what we should do to solve these problems.

This is a formidable accomplishment, and it is no easy task to comment on it briefly. But let me offer a few suggestions. I could of course haggle with Lazonick over historical details. When, for instance, did "scientific management," or better "systematic management," begin to have an impact on American business practices? Clearly not before 1900. When did quasi-professional, college-educated managers really start to take over leadership roles in the American business system? Well after Lazonick suggests this transition took place.

These are important matters to business historians, especially when the phenomena being examined are used to explain why things changed. But I think I can leave the job of grinding out these details to others, probably to the current generation of graduate students. Their mills will grind very fine. They will muster the necessary correctives, I am certain.

Instead of grinding, I would like to touch lightly on three questions of interpretation or analysis raised by Lazonick's essay. First, I would like to suggest that his synthesis gives far too little attention to small enterprise and its contributions over the years to the success of the American business system. Lazonick's chronology gives to very large corporations a dominant role in U.S. production and distribution long before that was the case. He--like his mentor--is stressing the front edge of what would later become the most important set of institutions in the business system. Teleologies usually do that.

An ontological perspective would, I think, give a far greater role to small enterprise in the decades before the first phases of the organizational revolution were completed. It would specify as well the important role small enterprises had in the process of innovation even after the revolution had taken place. Lazonick mentions the "small is beautiful" movement, but I think there is more to be studied than that recent development. I want to leave this synthesis with a better understanding of the creative role of a firm like Armco, which was organized in the shadow of U.S. Steel and could not for many years achieve economies of either scale or scope.

Second, I think Lazonick's synthesis needs to give even more attention than it does to the role of government in the business system. This is true in its treatment of the entire century, but especially in its analysis of the years since World War II. The federal government supplanted the private foundations, sending billions of dollars into research and development. It built up science and engineering in this country. Many government grants provided smaller, capital-poor private corporations with the jump start they needed to break into new technologies. Government funds educated several generations of scientists and engineers, pushing U.S. institutions into positions of world leadership in many technical disciplines. The government also helped to create a very stable structure of business institutions in the energy industries, telecommunications, and in finance. This structure came under attack after about 1970. It is still under fire. But there is considerable evidence that it worked very well during the American Century--to the advantage of most American businesses.

In recent years what we read the most about, however, is the negative impact of government on business performance. I would not deny that it is easy to find evidence of this in the history of regulated industries and of the new social regulations of the 1960s and 1970s. But we need a balanced view, one that enumerates the positive as well as the negative effects on business of our very large governmental sector.

Third--and finally--I want to comment briefly on one aspect of Lazonick's proposed solution to our competitive problems. I too believe that there are serious problems, and I think Lazonick has identified a number of them. In particular, I applaud his treatment of the negative impact on our competitive situation of our heritage of adversarial labor relations. He is right on target. But his proposal that U.S. firms adopt cooperative approaches similar to those of Japanese firms seems to me to be off the mark. It is, to my mind, a-historical. The U.S. business culture is dramatically different than the Japanese business culture. Our political traditions are dramatically different. The United States is a much larger,

more complex, less homogeneous society with a strong tradition of competition and weak cooperative values.

We already have facilitated joint ventures and mergers by relaxing our antitrust policy in a decisive manner, but Lazonick calls for a more significant shift in policy. I disagree with him. He calls for a more coordinated economy, but I doubt that we can bring that off successfully with our government and business system. We have been attempting in the last decade to make a market-oriented business system work more effectively. Hence the triumph of Chicago School economics, as I noted before. That is all we can probably do well. We can and should force our trading partners to break down their barriers to U.S. products. We should let them pay for their own defense. But in the end our success will turn primarily on the ability of our innovative firms--Lazonick's subject again--to compete effectively at home and abroad. I am optimistic about their future and pleased that Bill Lazonick has provoked us all to think about this crucial aspect of U.S. business history.