The 1995 Newcomen Prize Essay

Culture and the Practice of Business History

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Recently the *New York Times* published separate articles on automotive innovations.[1] One told of a new Honda engine so efficient that it met the stringent 1998 California emissions standards. No other manufacturer had done so. Above it was a much more prominent story about American cars, which now average 3.5 cupholders per vehicle. The article featured Detroit marketing gurus patting themselves on the back for giving customers what they wanted, conveniences like coat hooks, storage bins, and the supreme fetish, the cupholder. With only a hint of irony they touted their sensitivity to the market, implicitly contrasting themselves with the arrogant old managers of yesteryear, who with wanton disregard for safety and dry-cleaning, let coffee spill freely inside their cars.

Now, who is to say that these inexpensive little gadgets might not yield, on a discounted cash flow basis, a higher return than Honda's new engine? To be fair, the article pointed out that the Japanese compensate for the cupholder gap with superior coin holders, made from long experience in a country with numerous toll roads. Yet it is all too easy to imagine three years from now Detroit

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[1]*New York Times*, January 9, 1995, c-1. Many friends and colleagues have contributed valuable suggestions to this article, but I would like especially to thank Susan Kellogg for her thoughtful readings. Funding for this work was provided by the National Endowment for the Humanities. All errors, of course, are the sole property of the author.

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pleading for more time to meet looming environmental standards while Japan's market share continues to grow. Years of competitive decline, and we have cupholders from Detroit, engines from Honda.[2]

By current practice, business history would attempt to explain these radically different approaches to automotive innovation through some functional model. That would be hard to do in this case. Reducing business behavior to the pursuit of profit, growth, and stability cannot account for the divergence of competitors located in the same market, sharing the same technological constraints, facing the same government mandates. It seems at least possible that culture supplies one of the missing pieces to this puzzle. Culture I define as a system of values, ideas, and beliefs which constitute a mental apparatus for grasping reality. Business culture is that set of limiting and organizing concepts that determine what is real or rational for management, principles that are often tacit or unconscious.

New Cultural Theory

The functionalist agenda with which business historians are most comfortable has been under attack for quite some time. Particularly strong has been the critical wind blowing out of departments of anthropology, literature, philosophy, and most recently history. Scholars in these fields have gone to great lengths to demonstrate that practices, beliefs, and institutions are quite specific to individual societies. Those of one cannot be reduced to the functional equivalent of those of another. All societies, for example, may feel the need to explain the cosmos, but there will be a world of difference between those that look to magic and those that look to physics for answers. The interpretative or hermeneutic approach to society begins with the position that, besides performing functions, institutions display powerful symbolic messages. Matters of meaning, interpretation, and value, the heart of culture, have

[2]The American belief that options are the secret to competitive success is not new. In 1982 it was reported that a Ford Thunderbird had over 69,000 possible options combinations, a Honda Accord, 32. Cited in Cusumano [1989, p. 193].

received short shrift in the hands of theorists most congenial to business historians such as Talcott Parsons. For Parsons, society, or its parts like organizations, were total, complete, interacting structures. Human subjects with their ideas and emotions at best fit neatly into the roles they were assigned, or dissented from them, but the content of what they believed and felt was unimportant [Parsons, 1951; Perrow, 1967].[3]

In line with its structural-functional origins, business history continues to separate the activities of the firm from culture. Alfred Chandler has pointed to the broad structural convergence of business organizations (in the same industry groupings) over time and across nations as evidence that the commonalties of technology and markets, rather than the specificities of law, politics or values, drive business behavior [Chandler, 1994].[4] Convergence, however, can be explained in cultural as well as structural terms.[5] The preference in business history has been to assume that convergence always reflects similar responses by managers facing similar technical and market constraints. This view asks us to ignore the plain fact that knowledge and ideas diffuse across nations just as technologies do. Developments in one nation, such as Henry Ford's assembly line, generated tremendous excitement and frantic efforts at imitation in others. Even the most pragmatic managers cannot help but compare their accomplishments with those of their counterparts elsewhere. In the course of their "practical" undertakings, they must rely on ideas about what works, what doesn't, what is efficient and profitable, and what is not. When managers see the world in similar terms, share a

[3]See Perrow [1967, p. 202] for more on the limits of this approach. See Giddens [1993] for a critique of Parsons' cybernetic view of culture.

[4]Chandler's [1990] structural model emphasizes the long term success of multifunctional, multinational enterprises that make a "three pronged" investment in large-scale production facilities, marketing and distribution channels, and professional, bureaucratic management.

[5]In his 1965 survey, Arthur Stinchcombe [p.167] acknowledged that organizations might exhibit certain regularities because they institutionalized values and commitments reflecting the moment when they were formed.

common understanding of how markets operate, agree on what generates profits and where to invest earnings, they may also be driven to the same decisions.[6]

It is also possible that convergence has been overemphasized. Global theories and structures have been a prime target of post structuralist theory. We have proceeded on the assumption that business structures can be thinly described as the unproblematic expressions of an underlying, universal process, notably self-interested competition. At one level of analysis, all modern business appears similar and is therefore presumably driven by the same dynamic. A more localized and microscopic view, however, reveals some intriguing differences. Family firms in Italy and distinctive business-government institutions in Japan have both been sources of competitive advantage. Thicker description still of business might discover that even outwardly similar firms actually do things quite differently [Geertz, 1973; Walters, 1980].

The goal of interpretative theories has been to construct a realm for ideas that is at least as commodious as that afforded structural factors. Behind the interpretive turn lies the belief--sometimes unstated--that ideas have consequences.[7] Hermeneutics, the science of meaning, is ground in the *verstehen* tradition, dating back to Weber and the German Historical School. This tradition sought knowledge of society (or the past) by understanding it in its own terms, rather than through an abstract model. More recent versions of this approach place great emphasis on language, which is seen as conditioning our very perceptions of reality [Giddens, 1993; Marcus and Fischer, 1986]. Signs, symbols, myths, and rituals are also kinds of language. They are ways of ordering the physical and social world, something we language-using humans must do, since we cannot

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[6] On the diffusion of business ideas generally, see [Locke, 1984; Smith, 1995; Caron, 1988; Carls, 1993].

[7] Clifford Geertz's early works, for example, exhibited a marked concern with "reading" cultural practices not just for the pleasures of the text, but to uncover ideas that shape and order social structure. See Geertz [1973A, pp. 250-51].

experience reality plain and unfiltered. In theory, practices of all sorts, including business practices, could be read to expose the cultural constructs they signify.

There are two areas where greater attention to culture can help the practice of business history. One is in refining the concept of organizational capability. Business historians have sought a way of describing more thickly what goes on inside firms than is possible with neo-classical economics. Organizational capability has been the result of their quest. This broad term covers a multitude of attributes. It may mean little more than the investments that firms necessarily undertake to support their products. Or it may indicate the experiences that give a firm valuable tacit knowledge, which competitors cannot duplicate. Indeed, many capabilities have to do with the way the firm creates, collects and coordinates resources, especially knowledge and information [Nelson and Winter, 1982]. These cognitive dimensions of organization might well yield to the sort of cultural analysis that has been directed at other cognitive features of society, such as religion, political ideology and science. Capabilities understood as cultural values specific to individual firms or entire national economies may be more important than formal structures like multi-divisional organization in explaining firm performance.

Culture also offers a new way of appreciating the relationship between the firm and its environment. By environment I mean most importantly technology and the market. A cultural approach questions the sort of categorization that separates firms from consumers and treats both as interacting only across a limited and highly formal divide called the market. It looks instead at how the ideas and strategies expressed by firms find their ways into the minds of consuming agents, and thereby create the environment of "demand" that supposedly disciplines business activity.

We can begin examining the cultural dimensions of organizational capability by noting a simple temporal fact. In undertaking action, especially creative, innovative action, organizations must project themselves into the future, beyond what

is readily known. They can rely on a variety of devices, or "heuristics," to do so. These include simple rules of thumb--invest in automation technology when workers are restive. Or they may involve complex decision-making equations. Though they strive to be rational--restive workers often do cause trouble--they are by definition imperfect predictions of the future. When firms project beyond what is known, as they must when innovating, they inevitably encroach on the boundaries of rationality. What lies beyond these boundaries? I submit that here we enter into the realm of culture.[8]

Firms depend on some subjective evaluation of what "usually" happens in a given situation, or what the future will be like, or how workers or consumers or investors behave. Such subjective evaluations in turn depend on a particular configuration of symbols and local knowledge. Symbols like discounted cash flow and capital budgets, for example, are powerful representations of reality that guide managerial behavior. They are, however, neither universal nor objective pictures of the world. Some firms adopt these constructs wholeheartedly and use them to determine investment decisions; others merely treat them as general guidelines. Such variations can be explained as part of the cultural orientation of firms [Baldwin and Clark, 1994; Chandler, 1994; Johnson and Kaplan, 1987]. How managers interpret the signals they get from the world--their culture, in short--remains crucial to action.

Where culture enters into management decisions, it may not be recognized consciously. Often people are unaware of the particular language that they use to grasp the world. We all hold in our heads certain truths that are largely unexamined and unexaminable. Yet we make decisions informed by these beliefs every day--how far, for example to trust a stranger, or how much risk is posed by a loan. In a like manner, the "routines" built into firms allow for fast, efficient, but unexamined decision making. The fact of decision-making in the face of imperfect (and costly) information and the need to act before outcomes are known force firms to create heuristics, but the stuff

[8] This leaves aside the question of whether definitions of rational are themselves cultural.

from which they are made may be an underlying set of beliefs and symbols [Dellheim, 1987].

These beliefs need not be wrong. I would argue that the American manufacturing "heuristic" of the 19th and 20th centuries--the productive power of systems of interacting, automatic machinery--is a long lasting and highly successful, though by no means universal, example [Hounshell, 1984; Sabel, 1982]. It was based partly on physical reality. Machines really can be connected in productive technical systems. Once such systems are set up, they really can lower costs and increase output. But applying this lesson repeatedly in new industries and with new technologies--often before there was clear evidence it would work--could not be based simply on rational deduction. It required a deeply held commitment to the idea of technical systems. Strategists who imbibed the system metaphor often found that their decisions turned out quite well. And a nation whose entrepreneurs were oriented in this fashion would likely enjoy international competitive advantage. Sometimes, however, unexamined commitments lead to disasters. IBM and General Motors may be prime examples of companies that continued to rely on once-successful heuristics that were no longer profitable.

The Postmodern Challenge

Thus far we have treated culture as a text to be interpreted. Interpretation, however, rests on the notion that the text has a fixed meaning we can grasp. Postmodern thought denies texts even this degree of solidity. This attack challenges a point that social science business historians find extremely compelling. Even if firms must ground their decisions partly in unexamined, culturally-based beliefs and ideas, over time does not the market sweep away inferior ideas and reward superior ones? Firms, we argue, only offer possibilities to society, which is free to accept or reject them. Business organizations may develop unique capabilities, but the constraints of the competitive market determine which succeed. Over time, is not market based capitalism fixed and structured? One might reply that

the long duration of change IBM and General Motors are undergoing suggests how strong culture can be even in the face of a vociferous market. But I will approach this very important point differently [Eagleton, 1983; Dirks, et al., 1994].

Recently, business historians have turned to evolutionary economic theory for insight. Evolutionary models, unlike neo-classical ones, allow economic activity to unfold through time and be constrained by history.[9] As firms act, for example, they accumulate skills and capabilities, which in turn affect future performance. History also constrains the direction of future change. When a society's firms have only learned how to produce certain sorts. of goods, it is likely that few will have the skills, or even the understanding of what it takes to produce other sorts.[10] Business practices become "inscribed" in culture, at a deep and usually unconscious level.

If we can with good reason take a temporal view of the firm, we should treat the demand side of the market, consumer behavior, in similar fashion. Consumers too engage in a process of searching, learning and adapting to the products and services offered by firms. Why assume that a group of human beings confronted with unfamiliar new products and services--consumers facing innovation--is better equipped to understand those products and their implications than the firms that created them?

The market is really a temporal process of buyers and sellers trying to understand the products they make or buy (or make and buy). Market exchange, in short, is about the interpretation, or negotiation, or imposition of meanings. In the language of

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[9]As William Lazonick [1991] has forcefully argued, the organizational capabilities of firms and the relations among managers, workers, and politicians have determined the level of economic well-being in societies over the past two hundred years. If Lazonick is right, we must reject the conceit that firms are perfectly rational actors, transparent to the forces of the market at all times. On the role of time in economic theory more generally, see [Langlois, ed., 1986].

[10]The idea of "positive feedback" effects is now commonplace in economic history. See David [1975].

negotiation, consumers try to express what they desire and corporations strain to hear what is being said. Within the firm, manufacturing, marketing, engineering and R&D departments try to define (and struggle over the meaning of) the products they produce and how to produce them. At least some of what is being expressed might have to be read in symbolic terms. Marketing and advertising involve substantial rhetoric aimed at attaching emotional connotations and values to products.

The market viewed in this way alters the questions to be asked. A dominant cultural interpretation is not given, it is constructed out of the activities of firms interacting with customers.[11] Firms and customers jointly construct meaning, each dependent on the other, each potentially in conflict with the other. The balance of power between the two sides may be roughly even--that is, firms cannot totally dominate but are also not simply passive recipients of consumer instructions. Firms too bring their skills--expressed in research, design, marketing and advertising--to the theater of consumption. They are part of the process of creating the values that underlie consumer decisions.[12]

Differences between this cultural view of consumption and a neo-classical view are significant. Marginalist theory assumes that, first, consumers are stable subjects who can attach whatever meanings they wish to the products they buy. These meanings are constructed internally by individuals, out of their own psychological needs. In Thorstein Veblen's words, the consumer is reduced to no more than "a homogenous globule of desire of happiness." Meanings are also well defined and determined. Whatever combination of

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[11][Bourdieu, 1977]. If we treat ideas, or more broadly culture, not as free-floating texts but as tied to social groups and organizations, then we can study how social and cultural change relate. The relationship between production and consumption presented here is much like that between science or technology and society presented in Latour [1987, pp. 137-44]. Latour points out that the creation of technology also creates or recreates society. Both technology and society are outcomes of the same creative process.

[12]For an example of how a "cultural" predisposition toward production without attention to consumption can hamstring a firm competitively, see Adams [1990].

desires that an individual brings to consumption, they are his or hers alone, and at some level, meaningful to that individual. Firms may influence consumers through advertising and marketing, of course, and may offer alternative interpretations, but the meaning is, in the end, that of the consuming subject alone.

Cultural theory takes exception to each of these points. It sees subjects not as stable, but fragmented, always in construction. It sees meanings as multiple and often strategic--that is, aimed at fostering a particular outcome for some interested party. Perhaps most importantly, it sees the imposition of meaning not as a private matter, between the consumer and his good, but publicly constructed out of symbolic displays, power relations and social practices. When a consumer purchases a product, he or she consumes with it multiple public meanings. A car, for example, might start out as a utilitarian purchase to provide better conveyance between points A and B. But cars are also complex technologies whose meaning can be inscribed on many axes: power, speed, fuel efficiency, beauty, durability, ride, comfort. At every moment, the consumer's desires are subject to revision, because of the presence of these multiple meanings. Business strategy consists of bringing one or another meaning to the foreground, not just through persuasion, but through design decisions, innovation and competitive tactics against rivals firms that shift consumption patterns. Such activity creates new values and desires .[13]

Seen this way, the production-consumption relationship is one of those public arenas in which meanings are stabilized, at least temporarily. As the firm and its customers participate in the structuring of meaning, they become locked into a particular cultural framework. Until the 1970s, the shared meaning of the automobile constructed by Detroit and the driving public was extremely powerful and resisted demonstrations of its ultimately arbitrary basis by the Volkswagen Beetle and the first wave of Japanese imports. It also

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[13]Consider, for example, the interaction between culture and business strategy in the shift from cigar to cigarette smoking [Lears, 1994, pp. 181-182]. Lears in general limits his study to rhetorical manifestations of adverting and fails to consider the relationship between innovation, organization, strategy, and consumption.

worked its way into the fabric of American society. A culture dedicated to big cars became a culture that could see public transportation (but not highways) as a waste of money. A people invested in an expensive a piece of machinery like the automobile had every reason to make full use of that investment, and to reconstruct transportation policy around that sunk cost.

I am offering a view that recognizes contention, conflict and power in social relations, including those of the market. Deconstruction need not, Terry Eagleton has argued, merely be content to critique efforts to ascribe meaning [Eagleton, 1983].[14] By challenging notions of stability and structure, it may also help reveal hidden springs of power in society. Like any other social institution, business can be investigated for its power to ascribe meaning, and thereby constrain, control or claim to represent what is real.[15] No one who studies modern business is likely to forget that many, many voices have argued about position of the corporation and contested the values it espouses. To act, economic institutions rely on coercion, constraint, division of labor, application of knowledge, and the creation and distribution of material wealth. In short, they mobilize power, not simply to repress but to move people in a certain way to accomplish certain ends. Cultural studies investigates both of the organization of the means and the articulation of the ends.

Paying attention to cultural production, we can construct a model of business that escapes the old structural-functional limitations. Business activity, especially innovative activity, is a site of practical action out of which culture is formed. It involves power, both in the sense that there are winners and losers, and more broadly that practice is transformative. Power constructs and reconstructs our

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[14]Eric Wolfe and the political economy school argue that all societies are caught up with world-wide economic and political developments, which have affected their cultures [Wolfe, 1982; Roseberry, 1991].

[15]This has been practiced most effectively by Michel Foucault, who analyzed institutions such as the prison and the law as "micro-technologies of power." Like Marxian notions of hegemony, Foucault's concept of discourse denies that institutions are merely rational constructions that carry on society's necessary work [Foucault, 1979 and 1971].

view of things, our values, our basic ordering concepts that permit social action. We need not give up on structure, but we cannot treat it as fixed and external to social actors. Instead, it is the result of an on-going process of structuration, in which business is one very important actor [Giddens,1993].[16]

In this model, the responsibilities of the business historian extend beyond explicating the behavior of the firm. We must also explore how individual firms and business as a whole contribute to the articulation of meanings.[17] We have already taken a step down this road by making the firm an innovative and engaged economic actor, rather than a passive recipient of market instructions. How much further is it to acknowledge that firms are also engaged cultural actors who contribute to the structures we identify as consumer demand and technology?

This approach offers to introduce a stronger note of pluralism into business history. Cultural theory denies that history moves in one clear, universal direction. It undercuts ideas of modernization, of a single best model for business organization, or for that matter, of a single form of super-rationalized capitalism [Kellogg, 1991]. This interpretive flexibility, however, flies in the face of what appear to be the salient trends of the modern economy. Global economic changes seem to be moving societies, their institutions and values, against each other. Over the past five centuries, this process has seen capitalism triumph when it has confronted non-capitalist societies. All nations may have their peculiar business practices, but globalization seems to argue that some are stronger than others. How much pluralism can business history tolerate?

One way of resolving this issue is to examine business comparatively. Only a short time ago, for example, America was

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[16]The equivalent in literary theory is to emphasize writing and reading, rather than the written. Consider Fish [1980].

[17]This is taken up by Zunz [1990]. Weber [1958] examined one side of the process by linking changes in religion to the birth of capitalism. Thomas Haskell [1985] has explored the other side of this causal relationship by examining the birth of a new moral order out of market society.

looked upon as the model of business practice. Today, Japan, with its unique business-government relationship, its obsession with exports, its restricted domestic retail sector, and its often distinctive corporate structures (see below) seems to argue for a very different style of capitalism. This at the very least challenges notions of a single business archetype. True, competition has consequences. Competitive winners not only grow and prosper, they replicate their culture when losers scramble to emulate their betters. It is the nature of this emulation that needs scrutiny, however. Japanese success, for example, has hinged ironically on American innovations like Total Quality Management. Recently, American firms have labored mightily to adopt these American-originated "Japanese" practices. American executives have been forced to study Japan as a foreign culture to find "new" and "different" means of breaking out of the prison of their own experiences. As America confronts the lessons of Japan, it will inevitably filter them through its own cultural lenses. What competition is producing is not an America reborn as Japan, but an America using Japan to critically reexamine its own practices.[18] Structure is changing through the mediation of culture.

The importance of cultural mediation may be seen in the enthusiasms that are sweeping through corporate America. Companies striving to deal with the excesses of the conglomerate movement and foreign competition have turned to cost cutting and job reduction with an almost religious fervor. The glee with which executives "downsize" smacks of the ardent fear of high labor costs harbored by business people in nineteenth century America. Deploying new technology to reduce labor costs, rather than capitalizing on its less obvious potential to improve product quality, increase organizational flexibility, or better communications and learning, remains a strong management tradition in America [Zuboff, 1988; Lipartito, 1994].

[18]For acute observations on the process of cultural representation, see Clifford and Marcus, eds., [1986].

To be sure many of these recent developments can be explained as common sense reactions to inexorable market and financial pressures. But common sense is itself a highly cultural commodity. Nineteenth century British cotton spinners believed that they were acting rationally and in accord with common sense. Collectively and over time, however, they created by their actions an interrelationship between entrepreneurship, technology and work that locked the industry into competitive disadvantage. No one could see a solution to the problem that the market was telling them, in no uncertain terms, they had [Lazonick, 1990, 1979].[19] Efforts to link British decline to culture have implicated the educational system, upper class identity, and working-class politics, while assuming that business practice itself was rational [Wiener, 1981]. We have not recognized that culture inheres in the very idea of rationality that British managers used to justify their actions and to explain away their failure.

Locating culture in what we have assumed to be non-cultural is the challenge contemporary theory presents. It asks us to cut across what we commonly regard as separate categories--technology, politics, organization, class--to see how they signify powerful ideological constructs. By considering these sorts of connections we can bring business and culture into each other's domain, and see that a culture must include its most powerful institutions.

So much for an abstract and anecdotal portrayal of how culture can operate in the business world. Let me now turn to two case studies. One is designed to illustrate the operation of culture at the level of society and show how cultural values permeate and affect the structure of business. It moves from society to business strategy. The other takes the opposite course. It begins at the level of the firm and technology, then outward to society.

[19]Note that this case is an industry with many competitive firms. Culture does not involve only large, powerful, corporations.

Vertical Integration in the American and Japanese Automobile Industries

The usual explanations of vertical integration speak to the constraints on otherwise efficient markets. These include psychological ones, such as bounded rationality and opportunism, as well as technological ones, such as the need to coordinate complex functions. This level of analysis, however, does not ask why rationality is bounded in a particular time or a particular place, but may not be at another. It does not explain how some firms can coordinate functions without vertical structures, while others can do so only by bringing functions in house. Corporate organization, I offer, at least partly reflects the cultural and political conditions.

In America, automobile firms developed the familiar pattern of backward and forward integration. Even at an early stage there were limits to this strategy, as Henry Ford's disappointing experience with the River Rouge plant demonstrated [Langlois, 1989; Helper, 1991]. Yet, American automobile firms have exhibited a higher degree of vertical integration than their competitors elsewhere, most notably the Japanese. It now seems that American car companies face cost disadvantages from fabricating too many of their own intermediate parts. By contrast, the highly competitive Japanese parts supply industry is skillfully exploited by Japanese auto makers to keep costs down and quality up. American firms also developed a far different set of relationships with non-integrated suppliers than did Japan. Toyota and Nissan source parts from a limited number of non-integrated firms with whom they maintain long term relations. American companies, when not making parts in-house, simply let the market provide them with what they need and make few long term commitments. Here too, it seems, the Japanese way pays superior dividends.

Vertical integration presents both advantages and disadvantages to firms. On the positive side of the ledger, it improves information flows between parts makers and assemblers, prevents opportunism, encourages long term, mutual learning in a complex productive

process, and may permit scale economies in production. On the negative side, it requires a substantial commitment of funds, constitutes an investment that is hard to reverse (should demand not live up to expectations), and may undercut supplier competition, leading to higher input prices. The Japanese trick has been to somehow combine the rewards of vertical integration without actually integrating and thus exposing themselves to the downside risks. Nissan, Toyota and the others have been able to establish close relationships with suppliers, work together to solve production problems, maintain long term relations of trust, while also reaping the rewards of a highly competitive input industry providing some 70% of their automobile parts, at much lower cost than in America.

Differences between the industries in the two nations turn not on black and white distinctions--vertical, non-vertical, efficient, inefficient--but on a subtle combination of relations among a neighborhood of firms. Tradeoffs between organization, managerial coordination, and internal economies on the one hand, and competition, market coordination, and external economies on the other, are constant features of the modern economy. What varies is how (and why) firms in different nations perceive these tradeoffs and construct institutional arrangements to create the best possible outcomes for themselves.

Traditional explanations of Japan's strategy looks to the conditions faced by Japanese firms in the 1950s, when they began to gear up for large-scale automobile production. Shortage of capital, a small domestic market, and uncertainty about demand all made vertical integration risky and expensive [Cusumano, 1989; Helper, 1990]. Given these initial conditions, Japanese executives worked to find alternative methods of producing cars. Apparently they succeeded. As market conditions shifted, their capabilities in manufacturing without vertical integration became a strong competitive advantage. There was no foresight involved here, just the blind movement of markets and profit-seeking managers operating within known constraints.

This explanation characterizes Japan's current success as an unanticipated outcome of decisions taken at one point in time. Introducing history, is already a half-step toward a more cultural model. One problem with much of the literature on industrial organization is its ahistoric, equilibrium perspective. It offers no reason why any structure at any point in time should be suboptimal--or in this case, why the United States should be saddled with an inefficient automobile industry structure. Historical explanations recognize that economic patterns relate to the general movement of societies through time. What is rational is partly a function of when a decision is taken.[20] There are no recurring stages or equilibrium forces, only unique historic moments. Innovating firms, such as the American automobile manufactures who pioneered mass production, faced a different reality than did later Japanese competitors. An important "cultural" variable, then, is the particular history of the society whose business structures are under scrutiny.

What is missing from even this historical analysis, however, is an exploration of the powerful role that values and perceptions, the actual content of culture, play in this history. We need to know how values crucial to business structures are constructed and how they operate. Opportunism and self interest, for example, can undermine relationships between financially distinct units. Yet self interest may be broad and enlightened or narrow and individualistic. Whether or not one is morally superior to the other, different understandings will lead to different outcomes. Culture also defines the use of legitimate power. The coercive force of the law standing behind fiduciary obligations is one means of overcoming opportunism. Alternative power arrangements, however, may permit involvement of one firm in the affairs of another that American law would prohibit and that American managers would neither accept nor understand.

Cultural values and culturally specific definitions of legitimate power can help to explain why at different places and different times distinct structures dominate. For example, in theory it does not

[20]There is, of course, a huge literature on this, stimulated by Paul David's [1985] article.

matter who owns property, so long as property rights generate the most efficient and productive outcomes. If a factory is a superior method of organizing production, there is no reason it must be owned by a capitalist who hires and organizes labor. Workers could just as easily "hire" capital to arrive at the same outcome. But in history we rarely find workers owning factories. The reason may lie not in matters of efficiency but in cultural definitions of who can hire whom, and who should be in charge of whom. In the nineteenth century, these cultural patterns were particularly strong in the capital market. Investment bankers had no trouble extending credit to property owners who wanted to expand operations, but would never even have considered requests from collectivities of workers who wanted to purchase their places of employment. Similarly, culture--expressed in the law--allowed individual owners of property to collectivize in a single firm in order to reap the economic benefits of organization and coordination, a situation that gave capitalists a strong, organized position from which to deal with individual laborers. It was far less accepted, indeed often illegal, for workers to organize collectively, unless of course they could become owners of the firm itself.[21]

Values in place when industries were undergoing other technological or market changes may explain why vertical structures became so popular in America. In the nineteenth century, values that encouraged trust, contractual obligations, and long term alliances among formally separate business units were in tension with those that undermined these relationships. American law obviously marked one such constraint. It recognized formal organizations and accepted them much more readily than it did informal and cooperative ones

[21]For discussion of these issues that does not use culture as an analytical category, see Leijonhufvud [1986]; Williamson [1980]; and Marglin [1974]. Although the law and the accompanying values of American society changed slowly in the nineteenth century to accommodate new forms of business organization such as the corporation, they changed much faster and much more favorably for business people than they did for workers. See Hovenkamp [1991].

[Stigler, 1968; Lamoreaux, 1985].[22] In other nations, acceptance of informal, cooperative solutions to organizational problems was much greater. Business historians have explored the legal elements of business structure, but thus far only in a very limited and technical way [Keller, 1980; Horn and Kocka, eds., 1979]. They have not considered that law might reflect other dimensions of culture.

In a society like nineteenth century America, competitive, regionally divided, with multiple centers of power and levels of government, firms had to expect trouble if they relied on informal and cooperative arrangements, especially given those strong entrepreneurial traditions that applauded business buccaneers who shook things up [Lipartito, 1990; Klein, 1986]. They had to wonder as well about the variations in skills, conduct and values across regions and among groups when the second industrial revolution was in its infancy and American society was undergoing rapid changes as immigrants poured into the land. And they had to expect resistance and suspicion from consumers, who though eager to consume, also came from many different ethnic backgrounds with varied traditions and ideas about what to expect from the products they bought.

All of these conditions would likely have made firms feel safer both controlling their raw materials and the disposition of their output through formal rather than informal channels. Gustavus Swift, for example, used the financial and organizational structures available in America to overcome the suspicion of consumers and railroads to ship frozen beef to eastern markets. Given the opposition from the live beef "vested interests" whose investment he was about to destroy, it is extremely unlikely he could have coordinated these assets in any other way [Yeager, 1981; Langlois and Robertson, 1993; Langlois, 1990]. Vertical integration lowered costs and assured high throughput. But the reason it, rather than some other structural arrangement performed these functions had to do with the particularities of American society. Swift assumed, quite likely

[22] As Steven Usselmen has pointed out, the law was rather sympathetic to patent pools, even when freight and rate pools were treated more harshly [Usselman, 1990].

rightly, that he would face concerted, ferocious opposition from opponents and that, as the tepid interest of railroads in shipping frozen beef indicated, he would get little help or cooperation from related industries. We shall never know if Swift's way was the only way. What are important, however, are Swift's reasons and perceptions. In acting on them, he and others helped to create in America conditions that would make vertical integration attractive in the beef industry.

Once the path of vertical integration was taken, it became inscribed in American business culture. Economists might say it imparted a bias to further innovation. A successful and innovative new strategy, it was adopted as a business tradition in America, continuing long after the initial conditions that had produced it had abated. Having made the investments to integrate themselves vertically, firms would then find that the sort of cooperative, contractual and alliance-based relations that might otherwise prevail among functionally related companies were lacking in America. And this absence would create a further justification for vertical integration. The strategy became defined as the logical and rational way of doing business, but it was only one way of dealing with the realities of technology and markets.

The creative actions of entrepreneurs have all but been written out of the modern style of business history. Seeing business as a part of culture, however, opens up the role of the individual once again. Businessmen like Swift or Henry Ford, because they undertook creative action that went beyond what was known or accepted at their time, had no choice but to draw their ideas and strategies from the deep sources of culture and value in which they were immersed. Indeed, individual entrepreneurs can be crucial precisely because they have strong commitment to ideas or strategies that cannot be assessed in purely instrumental or rational terms. When technology is evolving, there is no simple test to determine which variant is going to end up as the optimal choice. Nor is there any unambiguous line from conception to execution. Such indeterminacy leads to "path dependent" outcomes. As Paul David has recently explained,

individuals who for whatever reason hold tenaciously to a particular variant of a new technology have great power in determining outcomes. The rest of the world, more flexible and calculating in behavior, bends to individuals like Henry Ford or Gustavus Swift, with their almost unshakable vision of where they want to go. At key moments, they can set an industry on a path from which it is not easily removed [David, 1992].

In the course of perfecting their systems of production, entrepreneurs often have no choice but to remake culture, often in unexpected ways. To profit from his investment in the machinery of dressed beef, Swift helped to remake American tastes and cuisine, to redefine what was considered fresh, good, and edible. To realize his vision of cheap, mass produced automobiles, Ford created a new definition of "masculine" labor that celebrated the endurance needed to stick to the assembly line, and which explicitly excluded women from such work [Lewchuck, 1993]. These examples show how, in making their products, Ford and Swift were also making or remaking our understanding of such basic parts of culture as work, food, masculinity and femininity.

The deep, meaningful cultural roots of business structures make them very hard to alter. Today American firms face not material difficulties in changing structure, they also face perceptual ones. Every day that Detroit executives go to their offices, they confront a reality that says, efficiency and profitability flow from vertical integration and short term supplier relationships. Is it any wonder then that the market has to hit them over the head time and again with losses, before they show signs of reforming.

Turning across the Pacific, we would argue that Japan's success with alternative vertical structures drew on a very different culture. Political traditions much less leery of antitrust would be one example. Thanks to the American occupation, formal laws governing restraint of trade are as strong in Japan as in America. They are just ignored by a society that understands competition differently than does America. Laws, the presence of investment banks, the zaibatsu experience, a peculiarly Japanese sense of hierarchy, family and the

state all provided raw materials for constructing new sorts of business relationships. And this is what Japanese automobile firms did in the 1950s--drawing on these cultural raw materials in their strategic designs. By actively building lines of communications to suppliers, demonstrating long term commitment, proving that trust was possible, Japanese firms created a culture whereby alternative structural arrangements could be seen as rational and real [Smitka, 1990; Roh, 1993].

Studies of Japanese business culture thus far have generally made the mistake of assuming that certain values are universal. By this logic, Japanese auto firms have bested those of the United States by drawing on a greater stock of trust and cooperation. Trust, cooperation, competition, self interest, and altruism, however, need to be located in a historical process of cultural production.[23] It is not that Japan has more trust then anyone else, or less contentious competition and self interest. It is rather that over time, these values have taken on a different meaning and been placed in a different context, often through the quite conscious activities of business managers themselves. Selectively deploying traditions that celebrated trust and cooperation, that emphasized the subordination of the self to the greater interests of society, that taught respect for those in power were useful means of building stable relationships among vertically related groups of firms in Japan. Pursuit of profit for Japanese suppliers has come to *mean* engaging in a long term, cooperative relationship with Toyota. For Toyota, profitable, self-interested management *means* supporting these relationships, even if, to American firms, doing so requires ignoring the obvious advantages to be gained in sourcing parts from the cheapest bidder. In much the same manner, the builders of big business in the nineteenth century United States drew on traditions of reform to construct big business

[23]In an important article, Mark Casson and Howard Cox [1993, pp. 43, 49] look at family-based business arrangements. If families are seen as universal and treated only as functional equivalents to other sorts of business arrangements, this sort of analysis is not very helpful. Families themselves should be understood to reflect particular cultural values.

as the embodiment of rationality, progress, and opportunity [Sklar, 1988, pp. 1-40].[24]

One task that historians delving into culture must perform is sorting out the various strands of causality in change over time. Competitive processes do not require explanations that make the victor all knowing and far sighted, or make invidious cultural comparisons. American firms constructed their strategies out of one set of historical and cultural raw materials; the Japanese, another set. As economists have recognized, structures need not be efficient in some absolute sense, only efficient in a given context. The American automobile industry adopted a structure that provided competitive capabilities relevant to the early twentieth century. Japan's response was taken in this context, as a follower facing a particularly structured American industry. That each nation was successful in building its respective industries reflects managerial behavior under particular conditions. That one structure has come to offer competitive advantages over another can be credited not to "cultural superiority," but to a complex series of economic changes that now seem to reward one structure more than another.

This explanation, though perfectly consistent with ecological or evolutionary models of organizational change, adds the missing piece that is needed to make such theories work. The problem with ecological models is that they rely too strongly on selection processes to explain organizational patterns. They presume that competition yields winning structures in the economy as evolution begets winning organisms in nature. But natural selection differs from economic selection in important ways. Natural selection takes place over an extremely long period of time, involves many, many organisms, and operates by selecting from genetically fixed individuals. Economic selection has a much more limited number of entities to operate on and, most importantly, acts on entities capable of intentional behavior who can pass on the traits they learn to future generations. Human

[24]A sophisticated attack on the neoclassical definition of rationality can be found in Mirowski [1988, p. 133].

institutions have a culture, in short, in contrast to non-human species. Indeed, not only are firms capable of learning from experiences and adjusting to mistakes, they cannot refrain from doing so. Asking thinking people to behave like unthinking, unchanging individual organisms is to stretch the natural selection metaphor further than it can usefully go. Whatever takes place between the firm and its environment takes place on people who are constantly considering their situation and trying to form responses to it.

Organizational selection works not by winnowing out bad organizational forms, but by teaching lessons, which are either perceived by the surviving firms or which are adopted by the new entrants who swarm in to take advantage of the opportunities being missed by incumbents. No firm can enter the market with a clean slate, without some ideas about how to proceed or without strategies about what might work. Even when the market ruthlessly punishes bad decisions, or as in the case of American automobile firms, selects against once successful strategies like vertical integration, firms can only respond by "reading" the lessons the market is teaching. Natural selection can operate blindly, simply picking in favor of certain randomly generated variations in form. There are no random variations in human organizations. The only source of variability is the different readings given to the lessons of the market by different organizations. The only source of variation for organizational selection is culture, or the different ways that different groups of human beings read, perceive, and process the information generated by the world around them. Such readings depend crucially on the particular values that people bring to business from the culture in which they were raised or from the historical experiences of the firms and industries in which they grew up.[25]

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[25]The point implicitly made here is that even in highly competitive markets with free entry and exit, there will not exist sufficient variations to provide an adequate range of different organizational forms. This is because, quite simply, no society would waste resources the way nature does, generating thousands upon thousands of organizational variations to have the necessary numbers to chose from. And even if a society were willing to make such a resource commitment, the variations still could not be random. No entrepreneur would start a firm by randomly picking an organizational form. All businesses are started with some

Culture and Technology

The argument thus far has been that culture inheres in all business decisions. There are no simple, one-dimensional, non-cultural "reactions" to market forces; all behavior, even supposedly easy responses to unambiguous market lessons, are filtered through cultural lenses by all actors all the time. A firm that tried to suspend intentional action and culturally-based perception would not be unbiased, but blind. This same constraint of intentionally works in the case of other supposedly immutable structures. Like the market, technology has been treated as a given, which, external to firms, shapes their behavior. Elsewhere, however, it has been subjected to a huge volume of critique by historians, sociologists, and anthropologist [Lipartito, 1993]. This literature argues that technology, though engaged with physical reality, is socially constructed. Technology only sets limits; it does not determine outcomes. There are always alternative ways of reading the same technology, just as there are alternative ways of a people organizing themselves to face any physical or environmental condition.

Seen in this way, technology not only functions, it has meaning as well. What a technology does and looks like depends partly on the meanings ascribed to it. New products or methods of production do not speak for themselves, do not give to their users clear, unambiguous signals. They must be read, which is to say, located in some system of meaning that produces the lessons to be learned by users (be those users consumers of final products or intermediate producers). Another way of putting the same point is that when a society adopts a new technology, it is making a statement about itself. The technologies that a society chooses to employ say something about the values, beliefs, and self conception of its people. These meanings are available for historians to read. And by reading them, we can project backward into the process by which they originated.

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idea of what works "best." Hence, intentionally prevents there from being a sufficient number of variations for blind selection to work properly.

One very powerful idea that has been used to order many types of technologies over the past century is system. System emphasizes the relationships among seemingly discreet technical artifacts. Indeed, the word technology itself originally implied system, though now it is taken to refer to individual machines. The system idea has also been applied outside the technical realm, to organizations and bureaucracies of all types. Its most powerful expression, however, came at the hands of engineers and managers concerned with the technologies of production, and especially with formal systems like communications, transportation, and electric power distribution. Even in these highly technical areas, however, system was not merely a convenient shorthand for physical reality. It was rather one way of interpreting that reality, which emphasized the values of functional hierarchy, operational smoothness, consistency, and central control.

Abstractions like system are important in business because they contribute to the construction of organizational routines. They direct investment decisions and guide further innovation [Hughes, 1983, 1989; Rosenberg, 1979, 1982]. We can see this perhaps most clearly in an extreme case. In telecommunications system came to mean the goal of a centrally controlled, interconnected facility of voice communications, highly standardized and capable of being expanded to include virtually every household. This definition affected decisions about research, the pace and timing of innovation, triumphs like long distance telephony, and failures like the Picturephone. It oriented technology toward lower costs at the expense of variety. It privileged rapid, universal service over individualized service. In America, it supplied one firm, AT&T, with a powerful political language that was exploited to secure a monopoly position. And it provided the counterpoint to the rhetoric of competitors, both seven decades ago and today. The success of competition in telecommunications will turn in part on the ability of firms to convince consumers and governments that the advantages of choice outweigh the security of standardization. To do this, they must redefine the idea of system.

Linking every telephone user into a centrally controlled facility looks obvious from our perspective, but in the nineteenth century even telephone engineers had doubts it could be done, or that it should be a primary goal. British authorities and Britain's National Telephone Company both disputed the need for telephone service below the upper-middle class. During this period, AT&T also ignored the vast majority of ordinary consumers and concentrated on the most profitable markets. At the same time, users themselves were giving the technology alternative readings, which emphasized different features and potential uses [Marvin, 1988]. By 1920, the situation had changed dramatically. Acceptance of system, particularly the idea of a universal network, had diffused to all industrial nations. This change reflected not the manifestation of inherent technical characteristics, but the end of a long struggle by various interests to impose order on the numerous discreet artifacts and corresponding technical knowledge that made up the technology of telecommunications. System became the metaphor, resonant with multiple meanings, by which telecommunications would be understood and given shape.

This cultural location of technology was crucial to innovation. No one actually knew what they wanted from the telephone before there were telephones to use. By analogy and metaphor people could project desires, for faster communications, say, on any imaginary device they might create in their heads. Actual preferences, however, can only be established by consuming, which means that first there must be a product to consume. Regardless of their strength, moreover, wants and desires must be read and interpreted by producers, who are faced with the task of giving expression to these inchoate wants by offering for sale goods and services. The expression of desires gradually becomes embodied in new technology in the same way that an abstract "text" is embodied in a book or theatrical production. Consumers' response to a new product is partly conditioned by the way producers imagine and embody these desires [Chartier, in Hunt, ed., 1989].

The behavior of America's dominant telecommunications company, AT&T, illustrates this "reading" of the market perfectly. At the end of the nineteenth century, telecommunications experienced a brief but intense period of competition. This dramatic shift in structure itself determined nothing, but it broke open a new market for meaning, in which rival producers competed furiously. AT&T's response was to develop a concept of telecommunications as a network or system, which gave it powerful competitive advantages. Its strategy was not a passive response to consumers. Rather, it was formed out of the firm's historic strengths, which were refashioned into new ideas about what telecommunications meant and what it should do.

AT&T's move to this new definition took place gradually, through trial and error, much as any firm facing a stiff competitive challenge might be expected to move. In trying to meet competition head on with lower prices, for example, the corporation had mixed results, often losing rate wars to smaller rivals. Rather than responding to these setbacks by dramatically cutting costs and reshaping itself like its lower priced rivals, however, the corporation began to emphasize those features of telecommunications in which it had a distinct advantage, most notably long distance, intercity service. In theory, this move might have been the first step of a conservative strategy. AT&T could have segmented the market, keeping the high volume long distance calls for itself, but spinning off local markets to its competitors, who were in many cases better placed to serve them. This response would have made the telephone industry of 1925 more like the industry of today. But it would have also meant conceding a significant victory to rivals. Instead, AT&T searched for a means of linking its strength in long distance service to its competitive battle in local markets. As it did, it created a new model for telecommunications.

The corporation's long distance strategy was ground in a deep faith that the technology of telecommunications "inherently" led to a single national network. In the face of much uncertainty--what consumers would do, where the key technological innovations lay and

what the final stream of costs over revenue would be--this sort of commitment from the corporate culture was crucial. It reflected the experiences, the capabilities and the investments already made by AT&T, during the years when it had held a monopoly (1880-1894). Competition forced the firm to draw on these strengths and refashion them to meet the pressures of a changed market. Materially and rhetorically, AT&T made a substantial investment to link local and long distance technology into a single service. These investments included a search for new ways to extend the range of transmission, a search that necessarily required ignoring other new equipment, such as automatic switches, which augmented local service [Lipartito, 1994b]. The emergent idea of an integrated local and long distance network whose technology and features would permit virtually instantaneous communications between any two parties, which would grow to nearly universal proportions, and which would operate through central control and planning, was a product of AT&T's creative entrepreneurial vision in response a competitive telephone market.

To managers of a firm, interpretations like system act as general ordering principles through which they read market information, sort the essential from the ephemeral and make strategic commitments. Seen in this way, a cultural view of business is similar to the rational models with which we already work. Firms form routines, commitments and capabilities that direct and constrain behavior. But culture adds additional dimensions. Firm commitments, for example, are not necessarily rational anticipations of the reactions of rivals. Firm capabilities are not simply unambiguous information processing activities. Firm routines are even harder to change then we imagined. In forming an interpretation and in creating an internal culture, firms draw on a variety of influences that extend beyond the realm of reason. They have no choice but to look to history, to politics, to the enthusiasms of their best personnel, for they are projecting well beyond what can be known. Taking culture seriously means admitting that firms have an emotional life, and that they will understand the lessons of the market in quite distinctive ways. These

distinctive readings are inevitable, given the inability of human beings to proceed without some set of ordering concepts. And, as noted above, they are crucial to the creation of organizational variations which are needed in any selection process.

The value of a cultural perspective increases as we move from the firm level to society at large. As companies engage their rivals, they push their interpretations beyond their own walls into the public realm. When organizations are successful competitively, they can often impose a dominant interpretation on technology, one that transcends the particular circumstances in which it was created. Companies in this position are likely to enjoy a long and profitable life. As AT&T articulated its new strategy, for example, it also drove it into the perceptions of the public and into politics. In the hands of Theodore Vail, it became a vision of what an efficient telephone system should look like, of what the market for communications actually consisted of. Vail's famous idea of universal service--at its most extreme, every citizen possessing the ability to talk with every other citizen--explained how and why a system, which did not yet exist, would over time grow into the most efficient, effective, and valuable form that telecommunications technology could take. It was only one possible vision of what the technology might become. But it was a powerful vision. It bridged the gap between the present, when the system was just taking shape, and the unknowable future. Over the next half century, consumers, regulators, and other firms would accept this interpretation of technology. It came to define the very way in which people understood telephone reality [Galambos, 1991].[26]

The power of corporate cultural constructs can be seen when similar technology moves across societies and leads to strangely different results. Consider the pricing of telephone service. Over the past century, pricing issues, a rather technical matter, have been subject to fierce public debate. Generally economists and of late

[26]In a like manner, IBM in the computer industry at one time served as a touchstone for understanding the trajectory of this technology. See Usselman [1993].

many politicians, have argued that telephone pricing should be done in the same manner as for any other product, on the basis of marginal cost. There are good reasons for this position, just as there are for other pricing mechanisms, such as value of service and average cost. Historically, what is interesting is how different ideas about pricing are justified and acted upon, even if to the economist there is only one true method.

In the early twentieth century, engineers and managers on both sides of the Atlantic argued for the economist's view. Telephone charges should reflect marginal costs, they contended, which meant that customers should pay for each call, for the duration of the call, and for the distance called. Interestingly, however, competition, revealed that consumers did not want to pay for service in this manner, even though most would be better off by doing so. With usage sensitive pricing, they would have to pay only for the service they used, just as one pays only for the electricity one consumes. In the United States, however, telephone customers opted for flat monthly rates whenever given a choice. AT&T tried unsuccessfully to explain to the public its own best interest. So too did politicians, competing companies (who did not like flat rates either) and, surprisingly, business users in large cities. Business users benefited from fixed monthly rates, as they generally made many calls. Yet they had imbibed the ideology of efficiency too, even against self interest. Though all these actors strove to eliminate flat rates, they never quite succeeded.[27] Even to this day a high percentage of non-business telephones are on flat rate schedules in the United States.

Across the Atlantic, rate issues played out differently. In Britain, there was no competition and British authorities were able to put a stop to the flat rate "nonsense," instituting an incredibly strict and detailed regime of charges that tried to take every variable cost into account. Engineers worked sedulously to devise ever more ingenious mechanical counting devices to assure no second of any

[27]*Telephony*, April 19, 1906; April 11, 1914, p. 41, April, 1906, 217.

call went unmeasured. Pleas from the public for flat rates were answered with the logic of economics, and a reminder that, after all, measured service really was in the customer's best interest. Interestingly, when the British looked across the ocean at America's wildly competitive industry, they selectively ignored what was actually going on--institution of flat rate charges in competitive markets--and instead identified with the one institution they could understand, AT&T. They ascribed the rapid and extensive deployment of telephones in the United States to marginal cost pricing. In fact, competition diffused both telephones and flat rates.[28]

Clearly a structural factor, competition or its absence, tells us why policies that were imposed in England could not work in the United States. But this story also offers other lessons. In Britain, that nation of shopkeepers where fifty pence buys exactly one cup of coffee, we find a strict policy on pricing. In America, home of the bottomless cup of coffee, we finds flat rates. One may be tempted to agree with the economists and favor marginal cost pricing. But another very powerful authority, competition, spoke in favor of an "irrational" pricing scheme. To understand why consumers favored flat rates, we would have to investigate the psychology and culture of telephone users. If we did, we would discover that what people want and what economic models say they should want are two different things. The ideology of economics can be a very powerful tool for justifying doing things that people do not necessarily want done. It is an ideology not in the sense that British engineers or AT&T managers were cynically serving their own ends; one could make money under either pricing regime. Given their perspective and their cultural baggage, however, they could not help seeing matters in the way they did. Even the arcane and technical world of pricing operates with cultural precepts, which supply a powerful means of ordering action, and for explaining, publicly, how things should be.

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[28]BT Archives, Post 86/28, Telephone Policy, 1874-1913, H. Babington Smith-Postmaster General, November 11, 1907. Post 86/54, Telephone Committee Report and Evidence, 1898, Testimony of William Preece; and *National Telephone Journal*, vol. II, April, 1907, 12-13, for examples.

The Future of Business History

The premise of this essay has been that firms are inevitably caught up in culture, and must rely on the language of that culture to take action. The value of this approach to business may be best assessed by comparing it against the economic models with which business historians are more familiar. Many economists too have pondered what might be called the mind of the firm. But they have remained wedded to a strict rationalism that writes humanity out of business altogether. The limits of this narrow rationalism have prompted not so much a broader, cultural economics, but a move to ecological or selection based models. Whatever their merits, such models operate with the strong assumption that one can understand business or consumer behavior without positing any sort of mental process. In the famous words of Milton Friedman, one can imagine business people doing anything one wishes, because in the end, the market will reward those who come to the right decisions, and sweep away those who do not.

The problem with such an approach, as I have tried to show, is that by ignoring culture, it creates an untenable abstraction of human action. This cannot be dismissed with the usual positivistic assertion that realism does not matter, only predictive accuracy does. Ecological models must either posit purposeful, rational action--a position discontent with our understanding of how people actually are. Or else they require some source of variability to generate the different organizational or technological forms on which selection can operate. Since there is no random mutation process for human institutions as there is for biological organisms, one must either retreat to a purely rational view of human action once again or to culture to generate sufficient variation for selection processes to operate as they are supposed to do.

Another way of making the same point is that all human actors must always and everywhere filter their perceptions, and hence decide their actions, through a set of cultural constructs. Even the most

pragmatic of entrepreneurs reads the market and decides how to act. Different readings may well produce different structures, but the source of these differences is always controlled by culture. This culture model acknowledges business as a human endeavor, and as such, a reflection of the continual and intentional effort to order the world through systems of meaning.

The same strictures can also be applied to the market, to consumers whose actions are traditionally seen as providing the external disciple that directs business behavior. The problem with this traditional view is that it leaves the sources of consumer demand unexamined. It assumes that people somehow form clear, concise, and consistent preferences. Positing a consumer who merely makes rational choices among known products is not defensible when we have acknowledged already that such rational choice models fail to account for the creative processes of innovating and learning that firms engage in. Consumption involves not only choices among known, available goods, but a desiring of imaginary goods and the production of those goods to make desires concrete. What we call exchange requires a mutual reading, on the part of consumers imagining what they want and on the part of firms imagining what consumers are imagining. Consumption is thus a continual interpretive process, a dialogue between firms and their customers. The results of that dialogue are the creation of a new reality and a new set of consumer wants and desires.

Some economic models today treat firms as temporal, intentional actors, acknowledging that they acquire new knowledge and correct past mistakes. But all this learning is rather more like that of the smart machine than the human mind. At the middle ranks of the corporation, perhaps the machine metaphor is appropriate, but it offers no way of understanding, for example, the creative behavior of top managers. Management can be seen as a skilled performance, directed outward to the market and inward to firm personnel. Entrepreneurship involves the manipulation of cultural symbols to reconstruct firms and products in order to gain or maintain competitive advantage. Most of the time firms blindly follow their

routines, or at best make small adjustments to them. But occasionally entrepreneurs really open up supposedly settled matters, calling into question interpretations that define products or technologies, and reconfiguring the symbols on which organizations rest. They are thus closer to artists than to supercomputers. Their goal is to cause us--us being the consumers of the firm's products or its employees--to see reality in a new, unexpected way. Those who achieve such breakthroughs are able to capitalize on their vision by offering for sale products and services that match it.[29]

We may have to recognize that firms are really "imagined communities," whose existence rest on the continued articulation of certain fundamental values and ideas that maintain key links of power and status within the firm hierarchy. Although organizational charts tell us something about how decisions are made and how human behavior is directed, the informal mechanisms of firm culture may be a more important source of authority, learning, and coordination. Business historians will need to pay much more attention to these cultural links.[30]

Even though culture blurs the once crisp definitions of product, structure, market and technology, we need not throw out all order or process. A shared interpretation, for example, may be extremely long lived. Those who invest in an interpretation may tend to pass it down to succeeding generations, in the same way any other element of culture is handed down. And successful firms can with some confidence develop routines and competencies around prevailing interpretations. We come to accept that the miniaturization of electronic consumer goods is the strategy to pursue, that assembly-

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[29]A cultural entrepreneur possess expertise, which is rather different from the sort of computational, linear reasoning of the machine--or of the corporate bureaucracy. Expertise inheres in the individual, and can be aided by the acquisition of knowledge and information, but never totally replicated by purely rational models. It is also culturally specific, an example of "local knowledge," and "common sense," which differ, sometimes radically, across societies. See Dreyfus [1986, 1992] and Ferguson [1993].

[30]Two examples of studies that examine the internal culture of firms and show how structural similarities can hide important cultural differences are Dellheim [1987] and Yeh [1995].

line methods of production result in better, cheaper products, that telecommunications is a system presided over by a beneficent monopoly (or government agency), that IBM mainframes offer the most powerful means of processing business information.

As the above examples indicate, an interpretation is not simply right or wrong. Telecommunications can be effectively seen as a system, automation and assembly-lines have been powerful tools of production. But like any organization of reality such ideas also limit our creativity. They can blind us to other possibilities and be misapplied with unexpected results. They can be used by one interest to gain power over others. Like the notions of routines and capabilities, interpretations helps to train society's scarce resources on particular problems, though at the cost of constraining action. To the extent that a cultural approach can help us understand stasis or failure, it will be a welcome addition to a discipline whose methodology is biased in favor of success stories.

In confronting culture, business historians will be invited to leave the comforts of functionalism behind and light out for the unknown territory of semiotics. We will have to delve into questions about the signification of business behavior and organization. We might balk at doing so, because business does not to us seem obscure, distant, or unfathomable like Balinese cockfighting. But semioticians would argue business too is a text to be read, and that structures have moral, emotional and ideological lives. Business has contributed to the construction of such powerful ideas as rationality and efficiency, to such values as progress and to such structures as technology and bureaucracy. Why, at different times have we taken business as a model of social relationships, and at other times seen it as the manifestation of society's ills? How have ideas about what is ethical and right changed over time, from, for example, the nineteenth century conception of finance as a private game run by insiders to the twentieth century outlawing of insider trading [Lamoreaux, 1994]?

Questions about the culture of capitalist institutions have been ignored by those who presumably know capitalism from the inside. Much of the work of business history so far has been at the middle

level, examining the "normal" workings of firms before or after paradigm shifts. Now we have the opportunity to examine more thoroughly these changes, to study business as the most important cultural construct of the recent past.

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