Business Organization and Comparative Economic Performance

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The relationship between business organization and comparative international economic performance is today the source of many debates. Leslie Hannah has approached it in a major -- in many ways brilliant -- essay. Some of the critiques he levels at previous work clearly hit the mark, but in turn his own analysis is vulnerable to criticism. Therefore the direction of future research and conceptualization in business history is not yet settled.

Hannah is fully justified in pointing to the risk of American business and technology historians slipping into a unidimensional view, both of business performance in general and of America's experience in particular. Earlier, another British business historian, B.W.E. Alford, was even more specific, stating: "There are signs...that Chandlerian concepts are becoming part of a new orthodoxy on the development and functioning of modern capitalism" [Alford, 1994, p. 631]. As a French business historian, I can measure the costs of an orthodoxy. It took me and other French scholars ages to dispel the orthodox view of French economic growth expressed by American business historians such as David Landes, French economists such as Alfred Sauvy, and even some British business historians writing about France. Indeed, it is of strategic importance for business historians everywhere to realize that "many issues remain unresolved" [Jones, 1994, p. 1]. Intense scholarly controversies are thus needed (and welcome) to reevaluate regularly national intellectual traditions (not just the American one) that have framed our perceptions of business, if we want to increase business historians' contributions to a new theory of business.

Likewise, as a student of "scientific management" in twentieth-century Europe who repeatedly disagreed with the American engineer

Frederick Taylor's claim to have defined the "one best way" to rationalize production methods, I can only echo Hannah's implicit assumption that, even in the American century, there is no "one best way" to successful performance, whether American, Japanese, or other. Acknowledging this diversity of paths -- the existence of which was, after all, one of Alexander Gerschenkron's main points -- should not, however, divert business historians from their desire to generalize.

Given these conditions, Hannah's central thesis of "the American miracle," that the development of business in the United States along the lines of competitive managerial capitalism was in comparative perspective the exception, not the rule or the model, seems well grounded. Other British business historians have recently made the same point, one of them warning against the temptation to take U.S. company organization as "the ideal form" or "the ideal type" [Alford, 1994, pp. 633, 639], another arguing that "the development of business in the U.S. since the nineteenth century has been wholly exceptional" and inviting "European and Japanese researchers" to reinterpret U.S. business history from their own perspective [Jones, 1994, p. 18]. To the various factors mentioned by Hannah in his paper it is necessary to add the business impact of U.S. national, regional, industrial, and corporate cultures, a point I made when commenting on *Scale and Scope* at the Business History Conference in 1989. It is especially worth emphasizing the importance of contract for management [d'Iribarne, 1989], as well as the comparatively high level of individualism developed by American white-collar office workers [Zunz, 1990].

Finally, Leslie Hannah's contention that the economic assessment of comparative performance should not limit itself to manufacturing, but should also include the non-manufacturing sectors -- for example, agriculture and services -- is also a point well-taken, and one that has been made as well by the two other British business historians to whom I have already referred [Alford, 1994, pp. 633-34; Jones, 1994, p. 16]. Yet Hannah does not carry the argument to its conclusion, which should be to insist on the interaction between industry and services (or even agriculture?). Can business historians explain the success of Japanese industrial firms independently of the competitiveness of Japan's general trading companies [Fruin, 1992]? Can they study productivity and profitability of manufacturing firms in the twentieth century without taking into account the growth of consulting companies, however mixed their balance [Chandler, 1990, pp. 618-19; Henry, 1994]? Is the availability of financial services for industry a luxury, a necessity, or a danger [Fridenson, 1993]? Is the expansion of computer services in an information age unrelated to manufacturing industries?

Such questions lead us to issues left open by Hannah's analysis. I do not want to enter into a critique of the critic, but it should be said that Hannah's model of growth leaves aside major topics on which discussion should continue.

Clearly the first concerns the sources of competitiveness and economic growth. For Hannah, most of them lie outside the sphere of business organization. They include land and natural resources, population, apparently government as it establishes "institutions and rules of the game," and "social capability" (a concept popularized by recent economic literature, which ranges from government through education to markets). This emphasis on external conditions contrasts with Chandler's concentration on the "internal history" of the modern industrial enterprise [Chandler, 1990, p. 13]. It clearly addresses issues the neglect of which by Chandler and others has been widely criticized for twenty years [Alford, 1994, pp. 638-60]. Yet Hannah's treatment of these issues also leaves much to be desired. A striking case in point is the emphasis on European Nobel Prize winners before World War II, with only a passing reference to tacit knowledge. Not only have historians, economists, and sociologists of technology given much more weight to the role of tacit knowledge for the design and implementation of innovations [Collins, 1992; Pavitt, forthcoming], but, more generally, the various forms of knowledge have to be embodied within the industrial enterprise to work, through social and economic relationships, and this does not occur through a simple accumulation of intangible capital. It depends on learning processes that differ from firm to firm and from period to period. Moreover, it deals with the very nature of the firm: in my opinion, a problem-solving institution and a genuine source of knowledge.

There are other ways to rephrase the same argument. One would be to question the reduction of multinationals to their share of direct investment overseas. Another would be to call attention to Hannah's mention of "political incapabilities" and even to Chandler's frequent reference to "political instability." As a French historian, I have to remind readers that such "unstable" periods as the 1920s and the Fourth Republic experienced strong economic growth. Large enterprises do not simply submit to political conditions; they always mediate them, and they may adjust to them, circumvent them, or in some cases influence them. In other words, we should not return to prewar economics, which were preoccupied with the environment of firms rather than with firms.

The most immediate consequence of Leslie Hannah's far-reaching remarks is, in my view, to direct our attention as researchers to the sustainability of the first movers' competitive advantage. Is it as temporary as Hannah suggests, or as long lasting as Chandler shows, and why? Such a research orientation could also converge with the preoccupations of recent econometricians, who, in an even larger approach have focused their work on the "the persistence of profits in perspective" [Geroski and Mueller, 1990].

Conversely, the other consequence of the discussion of Leslie Hannah's paper is to reassess the concept of organizational capabilities, which was the central theme of an earlier meeting of the Business History Conference. Some colleagues at the Ft. Lauderdale meeting were very critical about its explanatory power. One even called it "a tautology." I do not agree with them. But it is true that one of the effects of this discussion is to lead us to an even more complex use of this concept. Here are some personal suggestions. The task of firms is less to keep and maintain their organizational capabilities than to be able to rebuild them periodically -- a most arduous challenge. Organizational capaiblities are not a patrimony that a firm would waste or lose, but a set of relational and cognitive paractices which can soon become obsolescent when they are not compatible with the emerging zones of tensions firms have to face. Zones of tensions are created by the multiplicity of principles of rationalization which become abailable and by the proliferation of knowledge, thus destabilizing existing relations between actors, and actors themselves. They may be sources of difficulities and conflicts at first, then of innovation and reconstruction. In other words, by keeping and enriching the concept of organizational capabilities, I simply suggest that we should not trade an alledged new orthodoxy for the older one.