1 Introduction: the evolution of two industries

Themes

This book is an analysis of the long-term forces shaping the British and American cotton industries over two hundred years, from the eighteenth to the twentieth century. The choice of a very long-term perspective deliberately highlights both the continuities and changes in the forces shaping business behaviour and the evolution of business culture, which may be obscured when shorter historical periods are studied. Inevitably this means that this is a work of critical synthesis, which tries to make sense of general trends, rather than being based on an extensive use of primary sources, which are used instead to fill inevitable gaps in the secondary literature. This multidisciplinary study derives insight from management, political economy and industrial sociology as well as from the methodologies and empirical studies of business, economic and textile history.

Contemporaries began commenting on the differences between cotton manufacturing in Britain and the United States during the second quarter of the nineteenth century. This began with an awareness that New England industrialists were producing cotton cloth in ways that were quite different from those found in Lancashire and with dissimilar social consequences. Attention has been particularly focused on the variations which occurred in organisation, technology and most particularly in labour productivity. Diverging experience, particularly from the late nineteenth century onwards, has been explained in terms of resource allocation, of relative product and factor market conditions, of differences in entrepreneurial energy and in institutional development. Where culture has been discussed it has largely been in the context of the 'anti-industrialism' which supposedly characterised British society in the nineteenth century and contributed to the failure of the economy in general and the staple industries in particular (see, for example: Montgomery 1840; Cotton Spinning Productivity Team 1950; Cotton Weaving Productivity Team 1950; Habakkuk 1962; Sandberg 1969; Sandberg 1974; Jeremy 1981; Lazonick 1981a; Mass 1984; Wiener 1981).

Irrespective of the interpretative stance, there has been a tendency to view the British cotton industry through American spectacles, with an in-built assumption of American superiority stemming from an undeniable labour productivity gap. Yet, if the cotton industry lay at the heart of early industrialisation in both Britain and the United States it has also been closely associated with relative economic decline, a phenomenon which, in different ways, afflicted both industries in the twentieth century. In discussions of the growing problems of the British cotton industry, in the twentieth century, the tendency has been to assume that its performance would have been enhanced by American-style technologies, vertically integrated corporate forms, a growing use of semi-skilled and unskilled labour and by more centralised systems of labour relations. Yet the question needs to be asked how far the features of United States strategies in the cotton industry were, to a considerable degree, a product of the peculiarities of its history, rather than being necessarily superior. In addition, it is important to explore just how well United States firms performed from the interwar period onwards, in comparison with those in Britain. If it can be shown that firms in the United States also experienced difficulties, despite their technological and organisational form, it will be hard to sustain the idea that British cotton firms could have avoided their twentieth-century difficulties merely by using American methods. This is not to suggest that modernisation was not needed in Britain, but rather to question the desirability of United States-style methods in a European context. The degree to which the United States model of cotton manufacturing is truly representative has already been addressed in debates relating to the relationship between technological and organisational change in the cotton industry, but has yet to be taken to its logical conclusion in a long-term, comparative and historical study (Saxonhouse and Wright 1984: 507–19; Clark 1987: 141–73).

The evolution of the cotton industry displayed a number of peculiarities on either side of the Atlantic, which helped to shape the expectations of businessmen and hence both the culture of their firms and the strategies they pursued. These included the relationship between the historical experience of industrialisation and late nineteenth- and twentieth-century technological, organisational and product choices. Of equal importance is the relationship between government and industry and the effect which this had upon market expectations and the process of innovation. It is not, however, possible to understand differences in business behaviour unless the consequences of the peculiar political and developmental status of Britain and the United States are remembered. The cotton industry lay at the heart of early industrialisation in both Britain and America. However, whereas Britain was a colonial power and the first industrialiser, the United States was both an ex-British colony and the first country of recent settlement to industrialise. This book will explore the often profound long-term consequences of these factors for the pattern of change and the development of business expectations in the cotton industry.

It is vital, when comparing business decisions in the cotton industries of Britain and the United States to place them in their appropriate economic, social, political and historical context. As a result this book explores the formation of decision-making in relation to historical developments. However, to counterbalance the unrealistic determinism of path dependency, where technological or organisational choices are principally dictated by the internal resources of firms, almost to the exclusion of external circumstances, this approach is set against the background of a changing environment in the nineteenth and twentieth centuries. Forces such as shifting patterns of trade, import substitution, the international spread of industrialisation, the American Civil War and two World Wars altered for ever the external environment faced by all cotton manufacturers. Consequently, whilst analysing the continuities, the book will explore the way in which the development of varying business cultures contributed to the differing impact and responses to these pressures, especially after 1945.

The institutional environment is central to the study of business and the formation of businessmen's expectations for, as a system of formal and informal rules it influences government–industry relations, the operation of political, legal and financial systems, and inter-firm and labour relations. As a result it represents a major force moulding business responses through time (Davis and North 1971). This is because firms and the markets they serve are 'embedded in political and social institutions [and conventions] and are [as much] the creation of government and politics [as of economic forces]' (Zysman 1994: 243). By implication, however, the institutional environment cannot be separated from the social fabric of both business elites and working people, whose values and behaviour both influence and are influenced by it.

National characteristics are inevitably a vital starting point for the comparative study of business. However, in the eighteenth and nineteenth centuries there emerged numerous and quite varied family-controlled cotton firms, which can only be understood in the context of their local and personal networks. International and intranational differences in networking behaviour, the effectiveness of loose groupings, how they changed through time, their long-term consequences and their cultural underpinnings form one of the core themes of this book. Designed to increase confidence and reduce uncertainty, through the development of mutual trust and flows of information, networks have become an increasingly important way of understanding business arrangements in recent years (see for example Biggart and Hamilton 1992; Granovetter 1985, 1996; Gerlach and Lincoln 1992; Hudson 1986). It is vital, therefore, to explore the forces which led to contrasting types of community-based financial, labour, organisational and commercial strategies to be found in the nineteenth-century cotton industry, especially in the United States, but also in Lancashire, and the way in which such networking behaviour evolved. In this context the notion of the Marshallian industrial district, based upon the self-sustaining reservoir of skills and network of interdependent specialist firms, becomes critical. Much attention will be given to identifying the local distinctiveness of industrial districts in the cotton industry in the nineteenth century as well as to the difficulties they encountered in the twentieth (Marshall 1890).

Analysis of networks will not, however, be confined to the organisation of commercial and financial transactions nor only to communication within communities. They operated between communities and more especially between business and other organisations, especially government. This inevitably raises the question of how far differing political and social systems affected the way in which inter-institutional networks operated and the impact this had upon the behaviour and expectations of businessmen in the British and United States cotton industries. Economic, technological, political and demographic changes from the late nineteenth century onwards, meant that the role of community in the behaviour of those involved in the cotton industry did not remain static. It will also, therefore, be important to assess how far external changes made community-based networks, and hence the industrial districts of which they were part, redundant and how far changes in the relationship between communities had implications for the national competitive environment. Equally, the relationship between community-based networks and the ability to create defensive collusive arrangements, designed to stifle competition, needs attention. From the standpoint of the United States, discussion of this issue will pivot upon the impact of the rise of the South as a centre of cotton manufacturing, whereas in Britain it will focus on the relationship between the spatial and business structure of the Lancashire cotton industry in the nineteenth century, the development of price associations and the emergence of horizontal holding companies in the late nineteenth century and the interwar period.

Concepts

This historical study makes use of a number of closely interrelated concepts, including theories of firms and of networks and of business and community culture and the way in which they are underpinned by the institutional environment of rules and customs which govern behaviour. These tools are, for the most part, used implicitly in the book so it is important to clarify them in this introduction.

An awareness of the peculiarities of both British and United States experience and the social, political as well as economic forces which moulded it is essential if the divergent business strategies that occurred in the cotton industry are to be explained. It is the contention of this book, therefore, that the explanation of diverse policies of cotton firms, within and between the United States and Britain, requires theoretical tools which, whilst taking account of the contributions of both transaction cost economics and the institutional school of business history, explain variety rather than predicting convergence. These include evolutionary theories, on the one hand, but also both 'old' institutionalism and those 'new' institutional theories with a cultural dimension, as well as theories of networks.

Evolutionary theory has explored the way in which patterns of innovation may be shaped by a firm's inheritance and as such derives directly from Schumpeter's analysis of entrepreneurship and Edith Penrose's *Theory of the Growth of the Firm*. Schumpeter saw innovation as far more than simply technological change, including: 'The introduction of a new good . . . a new method of production . . . the opening of a new market . . . the conquest of a new source of raw materials [and] the carrying out of new organisation' (Schumpeter 1934: 63). Yet, the precise innovative strategy chosen will be shaped by the past, as Penrose demonstrated when she originated the idea of (if not the term) organisational inheritance and concluded that:

> There is a close relationship between the various kinds of resources with which the firm works and the development of ideas, experience and knowledge of its managers and entrepreneurs . . . and changing experience and knowledge affect not only the productive services available from resources, but also demand as seen by the firm. (Penrose 1959: 85)

By highlighting the development of organisational capabilities, evolutionary theory is potentially extremely fruitful for a book of this sort (Nelson and Winter 1982). This is because the theory demonstrates the impact of firm-specific routines, which have developed through time, on the choice of technology and, by implication, of organisation, and as such is invaluable in the explanation of divergent as opposed to convergent business arrangements. Recently it has been successfully used to develop a 'dynamic theory of business institutions'. In *Firms, Markets and Economic Change: A Dynamic Theory of Business Institutions* Langlois and Robertson demonstrate that, since the late nineteenth century, the large and centralised corporate enterprise is but one route to innovation and economic growth. Whether loose networks of small firms, coalitions or joint ventures are preferred and form the basis of competitive advantage, depends upon 'the nature of the problem . . . the stage in the product life cycle and the availability of information' (Langlois and Robertson 1995: 150). Since this book is concerned with relationships between firms, between firms and their communities and between different types of organisation, the notion that networks represent a competitive alternative to integration is an important conclusion.

This approach, with its emphasis on diversity and change, provides far greater possibilities for the comparative study of business and, especially, business networks in Britain and the United States than Williamson's new institutional, transaction cost theory or the empirical work of either Chandler or Lazonick. This is predominantly because of its greater flexibility and movement away from using the United States as a starting point for best practice in business. Equally the work of the 'old' institutionalists, most notably John Commons and Douglass North, is invaluable for the understanding of the formation and behaviour of all kinds of networks (Commons 1934; Davis and North 1971; North 1990).

The sense that the operation of the market is not costless lies at the heart of transaction cost theory, where it is used to explain the circumstances under which firms, as opposed to markets, represent the most efficient institutional arrangement (Coase 1937; Williamson 1981). Williamson's comparative static analysis starts and finishes with contractual relationships within and between firms, whereas Chandler's 'stages approach' to the growth of firms, although not directly based upon transaction costs, concentrates on the forces leading to the development and growth of the business corporation. Basing his conclusions firmly on empirical evidence, Chandler has focused on the complex, dynamic interaction between the innovative growth strategies of firms pursuing substantial economies of scale and scope and the development of professionally managed hierarchical structures. According to Chandler, the combined impact of technology and market growth led to the rise of the modern business enterprise from the late nineteenth century. These firms came to enjoy spectacular competitive advantage, especially in capital- and technology-intensive sectors in the United States (Chandler 1990: 235–94).

Chandler's 'stages approach' both underpins and is further developed by Lazonick who emphasises the shifting nature of international competitive advantage through time. Lazonick's perspective draws on the idea that, whereas in the nineteenth century Britain's proprietary capitalists enjoyed international competitive advantage, the characteristics of a business system, featuring high levels of specialisation and labour relations based upon collusion between employers and employed, served as barriers to innovation in the changing world of the twentieth century. Accordingly he suggests that competitive advantage shifted in favour of America's managerial capitalism with its professionally managed, vertically integrated corporations using advanced technology to displace skilled labour. Equally this model proposes a further shift in international competitive advantage with the eclipse of managerial capitalism by Japanese collective business systems (Lazonick 1991). While the notion of internationally shifting competitive advantage is compelling, the suggestion that the persistence of proprietary capitalism in Britain was the primary cause of loss of competitive advantage generally or in the cotton industry, in particular, has proved controversial (Jones and Rose 1993: 1–16; Church 1993: 17–43). Moreover, the experience of the 1990s with the collapse of the Japanese economy and the renaissance of the United States economy seriously undermines the predictive power of Lazonick's model.

Chandlerian theory has transformed the way we think about business history, turning the discipline from one which was primarily descriptive to one with a powerful conceptual foundation. Yet there are real difficulties in applying his ideas outside the United States and to sectors where competitive advantage is more reliant on the quality of information flows than simply on technology and capital intensity. (See for example Hamilton and Feenstra 1995; Granovetter 1996; Jones and Rose 1993). In this respect, part of the problem is that although Chandler is extremely sensitive to differences in the economic underpinnings of business internationally and both he and Lazonick built their analysis on the power of historical forces, their perspectives use the United States as a starting point for the study of business behaviour. In addition, neither gives much attention to the forces, whether political or developmental, which may have made the culture of business in the United States unusual, rather than being an appropriate blueprint for business worldwide, in the twentieth century. Yet this is precisely the criticism which Gerschenkron made of Landes' and Sawyer's comparison of the United States and French business over thirty years ago. He warned against a simple causality between social values and business performance if the superiority of American values was assumed (Gerschenkron 1966: 63–4). This debate continues in the 1990s and Thomas McCraw's recent textbook dismisses the idea of the United States as a model of capitalist development as 'not only parochial [but] seriously mistaken' (McCraw 1997: 302).

Institutionalists undertaking comparative studies make the underlying assumption of international convergence in business activity (Fruin 1998:

122–36). By contrast, sociologists perceive that: '[e]conomic action is socially situated [and] cannot be explained by reference to individual motives alone. It is embedded in ongoing networks of personal relationships rather than being carried out by atomised actors' (Granovetter and Swedberg 1992: 9). This focus on personal relations and hence upon social networks leads to an emphasis on the divergence of business systems which proves especially apposite for this study.

If the intention of this book is to move away from using the United States as the starting point in studying the cotton industry, it is also contended that business behaviour and the perceptions of businessmen are critically influenced by the networks of which they are part. It becomes easier to understand both the significance and persistence of networks in business, if discussion is shifted from the purely economic and formally contractual arrangements to be found in Williamson's work, to include social ties. This change of emphasis means that power and authority, and indeed cultural forces, become significant variables in economic organisation. Analysis in this book centres upon the ways in which 'embedded' historical, cultural and political forces meant that the cotton industries of Britain and the United States evolved in often contrasting ways rather than converging.

The so-called 'old' institutionalists, with their emphasis on the formal and informal 'rules of the game' which influence all aspects of business behaviour, provide some useful tools for the study of networks, whether between firms or between firms and other organisations. Institutions may be either the formal laws created by government or the informal codes of practice and behaviour found within families or within particular communities or groups of individuals. Either way, they are important because they help to create order and the basis for co-operation in an otherwise uncertain world. For example, formal laws and regulations are the basis of property rights, whilst informal codes underpin trust and shape expectations of the likely behaviour of associates. As a consequence, the institutional environment is the critical reference point and foundation stone which affects the evolution of organisations, whether economic or political, and influences expectations and human responses (Davis and North 1971; North: 1990: 1–5). Such theory is invaluable for making sense of international differences in business behaviour whilst throwing light on networks at the community level, where specific sets of social values and norms of behaviour may prevail.

The idea that 'institutions matter' and that an understanding of the 'rules of the game' is crucial to an appreciation of economic behaviour has been applied by some 'new' institutionalists (Hodgson 1988; Casson 1991) and some have evolved transaction cost theories, based upon family and family-like firms, which provide a partial theoretical underpinning to the study of networks both within and between firms. Theorists such as Ben-Porath and Pollak have, for example, applied transaction cost theory to family behaviour whilst complementary analysis has highlighted those circumstances which make informal 'clan-like' control arrangements, within firms, more successful than formal bureaucracies (Ben-Porath 1980: 1–30; Pollak 1985: 581–608; Ouchi 1980; Alvesson and Lindkvist 1993). Implicit in the transaction cost approach is the idea that where regular transactions are conducted in a hazardous environment bureaucratic arrangements, by reducing uncertainty, will increase efficiency. It has been suggested, however, that some circumstances are so hazardous that they cannot be regulated either by the market or the firm. As a result transaction costs will be reduced within firms when control is on the basis of shared attitudes, goals and aspirations, either through a shared background or the creation of a business culture, rather than rules and regulations. Therefore:

> In the clan form, with its lower demands on formalised, sophisticated information – common ideas, beliefs and values instead function as information carriers – yielding sufficient guidance for action, providing sufficiently good measures of the values to be exchanged. (Alvesson and Lindkvist 1993: 430)

Understanding the development and success of networks, therefore, clearly requires an appreciation of the way in which power and trust relationships develop and the impact which they have upon business behaviour. Inevitably sociology provides invaluable insights on such issues whilst comparative management theorists such as Hofstede, Hampden-Turner and Trompenaars allow for culturally based comparisons of business behaviour (Weber 1978; Hofstede 1984; Hofstede 1991; Hampden-Turner and Trompenaars 1993).

New institutionalism is not, however, always acultural and Casson's work, by linking the notion of transaction costs to that of trust, provides insights into entrepreneurial behaviour and the formation of networks within and between firms. Building upon the idea of social norms underpinning trust, it is especially helpful in the study of the boundaries of the family firm which can be viewed as including that extended kinship group of cousins, in-laws and connections in the local business community, especially from within religious groupings. It consequently represents more than just a reservoir of skill, labour and finance. It is a network of trust, the use of which reduces the transaction costs and the dangers and uncertainties of business activity. Thus, although the family might represent an internal market for managerial labour, a source of funds for establishment and expansion and of market information, the boundaries of the family business have usually lain within a rather wider group with a shared culture and values (Casson 1982: 302–7; Casson 1991: 69–70; Casson 1993: 30–54).

Undoubtedly network theory, which is based upon the importance of trust and its relationship to flows of information as well as to flows of goods, finance, commerce and labour, is invaluable in the study of business in early industrialisation. Consequently this book calls attention to the emergence, operation, effectiveness and differences in the predominantly family firm networks in both cotton industries in the eighteenth and nineteenth centuries. Yet networks, although often unstable, are by no means only a stage on the route to the integrated corporation. Similarly the significance of social relationships to business may change as economies mature but it does not disappear and may have repercussions for the interaction between and within even fairly large firms or between firms and governments in the twentieth century. This book will, for example, examine how far in the United States interlocking directorships, which have been inseparable from the idea of the corporation since the eighteenth century and form vertical social ties in business, have had implications for the behaviour of firms throughout the economy, including the cotton industry in the nineteenth century (Mizruchi 1982: 28–9).

It is not intended to suggest that either the British or the American cotton industries were organised on an anti-competitive collusive basis during industrialisation, or that when cartels did emerge in the late nineteenth century and interwar period they were especially effective – at the very least, the structure of both industries precluded this. Rather, the explanation of the varying motivations for and configurations in networking behaviour may well depend upon the differing types of individualism identified in the two societies. The history of the United States, it has been argued, has created an 'outgoing, pragmatic and democratic society [where] they are taught from birth that co-operation for mutual benefit is good'. This environment led to a kind of individualism which does not prevent co-operation for the common good and which differed from the position in Britain in the eighteenth and nineteenth centuries (Cochran 1971b: 102). Without the background of a Frontier society, a collective approach to business problems in Britain was far less common or necessary in early industrialisation. This is not to say that business networking did not occur in Britain, but it was far more fragmented and more commonly linked to the well-being of individual families than to that of an entire community.

These differences will be used to explain the causes and consequences of varying types of family firm networking within both Britain and the United States and between the two societies in the nineteenth century