**Theme 1 – The enduring Logic of industrial success – Alfred chandler**

**Intro:**

* Combining of 39 oil companies not for monopoly but for the cost advantage that could be realised by placing the companies refining facilities under a single management.
* Management concentrated close to 25% of worlds production into 3 refineries. Due to economics of scale unit cost of per gallon dropped from 2.5 cent to 0.5. with lower price company could undersell everyone else.
* Germany chemical companies combined and drove down prices by economics of scale. Price dropped from 200marks per kg to 23 marks. And then to 9marks.
* Copied in all different companies because they understood the logic of managerial enterprise the dynamic logic of growth and competition that drives modern industrial capitalism.
* Conforming to this logic entrepreneurs and mangers helped make germany most powerful industrial nation in Europe.
* Managerial enterprise-large industrial concerns in which operating and investment decisions made by a hierarchy of managers governed by board of directors.

**The logic of Managerial Enterprise:**

* Begins with economics- the cost advantages that scale and scope provide in technologically advanced, capital intensive industries.
* Large plants produce at lower cost, also can use many of same raw materials to create variety of other products.
* Potential cost advantages can only be fully realised if flow of materials through plant can be kept constant to assure capacity utilisation.
* Size alone not good enough- needed national and then international marketing and distribution orgs.
* Teams of managers required-lower, middle to coordinate flow of products through production and distribution and top managers to control current operations and to plan for future activities.
* Those who made these investments quickly dominated their industries.(first mover)
* First movers had huge advantage- competitors had to play catch up. Had to capture established markets. Challengers were few.
* First movers investments changed their industry-soon dominated by small number of large companies. In these competitive battles innovation and strategy were more powerful weapons than price.
* Singer seing machine, national cash register- competing by improving quality and creating new markets while lowering costs.
  + Searched for ways to carry out production and distribution more capably.
  + Engaged in systematic research and developemtn to improve products and processes.
  + Located better sources of supply and provided more effective marketing services.
  + Differentiated products
  + Moved rapidly into growing markets and out of decling ones.
* This competition sharpened the product specific capabilities of workers and managers becoming the basis for continuing growth.
* Horizontally-combing with competitors
* Vertically-moving backward to control materials, forward for outlets.
* Long term strategy to move into related product markets or move abroad.
* Geographic expansion usually based on economies of scale, moves into related product markets rested on economics of scope.
* In both case org capabilities honed by oligopolistic competition provided dynamic for continuing growth.

**Competitive Dynamics: where Britain went wrong:**

* Chemicals in Britain- most technologically advanced and provided widest range of new industrial and consumer products.-before 2nd world war.
* Englishman invented dyes 1860s/70s Britain had every comparative advantage in new industry.
* Dye made from coal-britain had largest supplies of high quality coal in Europe.
* Its huge domestic textile industry constituted worlds largest market for dies.
* Britain should of dominated industry but german companies- bayer, BASF , Hoechst took the lead because they made the essential investment in production, distribution and management that british industrialists failed to make.
* Bayer- experience is representative.
  + 1879s small pioneer.
  + Under guidance of carl duisberg began to tex;oit economies of scope- developing new dies and pharamaceuticals.
  + 1891- expaneded and purchased dye maker on Rhine- location which was good for receiving raw materials and shipping finished good.
  + Was going to expand existing factory but built new works to meet the companys needs for next half century.
  + Duisberg designed factory to ensure steady flow of materials from arrival to shipping.
  + Made sure each department had its own labs and engineering staff .
  + Bayer invested heavily in marketing, distribution and management.
  + Bayers global sale force of experienced chemists was contacting and working with more than 20000 customers.
  + By turn of century bayer had created one of largest and most carefully defined managerial hierarchies the world had seen.
* Germans competitive advantages demolished britains economic comparative advantages.
* 1913-160000tonnes die produced -140000-german companies =72% british=4000
* Electrical equipment similar storey-transformed economic life by electricity. Brithish pioneers as active as germany and us.
* General electric in us made the essential first mover investments not uk.
* German story is instructive-1903 simanns merged with competitor, they embarked on a 10 year plan to assure its global position, systematising and rationalising production by concentrating its operations under a single management.
* Result-worlds largest industrial complex, a giant set of works covering several square miles.
* Built a works for more than 20000 workers.
* Domestic rival AEG built a smaller works beside them.
* 1913-two thirds electrical equipment machinery made in british factories by british labor came from subsideries of GE and Siemens.
* AEG sold more products in Britain than any domestic company.
* Same story with metal-british pioneered but germans and Americans made the essential investments that drove the british out of international markets.
* The opportunity to make first mover investments and create a managerial enterprise is short lived.

**Competitive dynamics: what IBM did Right:**

* Passage of time has not made logic of managerial enterprise obsolete.
* US business machine companies were the first to see commercial possibilities of computer .
* IBM followed other companies initially.
* All companies involved made substancial investments in producing and distributing the new machine. But IBM was first to make the investments that transfored it into the industrys first mover.
* Strategy of IBM was to pursue as wide a commercial market as possible.
* Several years of intensive investment in research and production led in 1964 to the intro ofthe system 360, a broad line of mainframe computers for a wide range of uses.
* IBMs massive investment , and swift expansion of its international marketing org and impressive increase in its management ranks gave the company the dominant position in industry.
* Electronic companies dropped out of the business.. some competitors acquired electronics companies to improve their production and research competences.
* Because computers were only one of many product lines top management was unwilling to allocate the time and make the investments necessary to build an effective competitive capability.

**When large is not logical:**

* Why is size so often a disadvantage rather than an asset?- orgs can stagnate.
* 1920s henry ford destroyed his comapnys first mover advantage with a series of bad decisions. GM and Chrysler seized the opportunity to challenge ford, by investing in low price range where ford were dominant. Only after he dided his son hired a group of GM managers to regain competitive strength.
* More serious was managers choosing to grow through diversification to give tham a competitive edge- they ignored the logic of managerial enterprise- bigger was worse not better.
* Catalyst for diversification was competitive pressure. Growth came from moving abroad or into new markets in related industry.
* 1960s full impact of international competition was held back by world events.
* Ww1 kept germans out of international markets. Depression and war stemmed gowth of us and European countries.
* As a result international competition that was developing before 1914 only became fully fleged reality in 1960s.
* Same time unprecedented investments in research and development were intensifiying interindustry competition in the us and Europe.
* Change American competition as they hadn’t been challenged before.- markets became saturated. Capacity underutilised costs rose.
* Us managers responed by investing to improve capabilities in their own industries.
* Some moved to other industries where they had no particular competitive advantage. Thought that if they were good in one industry they would be good in any other industry.
* Invested retained earning in industries that appeared to show greater profit potential than their own. Lacked knowledge of their targets operations they obtained these plants through acquisitions or mergers.

**The tangled logic of diversification:**

* by 1960s mergers and acquisitions became a mania.went from 2000 in 1965 to 6000 in 1969.thi
* this unprecedented diversification led to separation of top management at the corporate office from the middle managers who were responsible for running the operating divisions.
* Occurred because top managers often had little specific knowledge of experience with technological processes and markets of the divisions it had acquired. Also the large number of acquired businesses created an extraordinary overload in decision making at the corporate office.
* Before ww2 managers ran less than 10 divisions by 1969 they were operating with 40-70 divisions, some had more.
* Few senior executives hadn’t the skill or training to monitor the performance so they relyed on financial data. However financial data was no good in understanding the complexities of competitive battles.
* Managerial weaknesses arising from the separation of top and operating management quickly led to the sale of operating units in unheard of numbers.
* 1960s- div rare, 1965-common,1970- 1 dive for 11 mergers, 1977 1 to 2.
* Margers, acquisition and divestitures established buying and selling of corporations as a business.
* While industrialist pioneered in this business the financial community prospered most from it.
* New business futher encouraged by chang in ownership of us industrial companies.
* 1952, 4.2% of American population held corporate secutities.
* After ww2 growing numbers of shares were held by pension and mutual funds. Grew little in 1920s and took of in 1960s.
* As number of such funds and the volume of the securities trated increased both block sales and turnovers rose rapidly – result- coming of an institutionalised market for corporate control.
* First time ever anyone could take over a company.
* 1979s restricting needed. Imperative senior managers reinvest in reshaping and rationalsing operation to maintain competitiveness.

**Restructuring For Competitiveness**

* Large companies can now be bought sold split up and recombined in ways that would never have been possible before the acquisition wave of 1960,.
* Such restructuring can be destructive. It contributed to the dissolution of powerful us companies.
* Chemical industry- competition hit them hard in 1960s. They were force to restructure and reshpe their product lines and organisational strategies. In the process they restructured the industry.
* Compnies narrowed their product lines. Expanded output in existing higher value added specialties. They moved into new areas such as biotechnology. They stuck to the same basic strategy that they had followed for a century, pursuing growth thourhg economies of scope and developing markets that best suit them.
* New entrepreneurial companies played almost no role in the restructured industry.
* Individual financiers managers and shareholders have profited from ignoring the dynamics of managerial enterprise in capital intensive industry.
* The consequences have hurt the long term health of enterprise and industries.
* Development, production, and dist of goods for global markets requires all skills and gacilites to be carefully coordinated to reduce price, assure quality and provide services.
* Failing this they will lose markets and profits to those in other nations and other industries.