

# The Emergence of Managerial Capitalism in Europe

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**Abstract:** The present paper aims at analyzing whether and to what extent Chandler's "Visible Hand" appeared and controlled the industrial development of Europe. It is the outcome of a study of the history of five firms, vis-à-vis., Marks & Spencer, Pasolds (Ladybird), Charles Early & Marriot (Witney) Ltd., Krupps and Volkswagen. After briefly reviewing each firm's progress, we try to trace the emergence of the managerial class as distinct from the owners and see to what extent they had a hand in the development of each firm.

**Keywords:** Capitalism, Managerial, Europe, the visible hand.

## 1. Introduction

Rise of capitalism marked the end of unhealthy restrictions and controls over trade and beginning with Adam Smith, the classical and neo-classical economists strongly defended the principle of laissez faire. They felt that the invisible hand of the market mechanism, if left to itself, was sure to establish fair competition among the sellers. Through this it was believed that a just and equitable system of production and distribution would be assured under which everyone would get what he deserved, i.e., his marginal productivity, and there would be no exploitation in the longer run. Like God, the invisible hand was controlled by none and if its rules were strictly followed, did justice to all. Laissez faire, or leaving all economic activity to the free play of the invisible hand (market mechanism) became the sine quo none of the entire capitalist socio-economic philosophy. However, even under the so called capitalist economic systems, the market mechanism was never entirely free. Under the guise of preventing monopoly, labour unions were banned though associations of employer existed. In order words, the rules of the game of laissez faire were followed by its exponents only so far as they were suitable to them.

During the latter half of the 19<sup>th</sup> century as the effects of industrial revolution come to be felt, the market expanded from local to national due, no doubt, to the introduction to railroads, telegraphs etc. which led to improved transportation and communication. The cumulative effect of these factors along with improved technology brought about a revolution in marketing. Commission agents were pushed aside by commodity dealers and wholesalers who in time were supplanted by retailers. These expanding market horizons necessitated the establishment of branch houses or units in order to capture larger market shares by producers. Backward and

forward integration of business houses followed in order to ensure a steady supply of raw material and demand for products. The form of business that emerged as a result was that of multifunctional multi-unit enterprises.

Industrial output soared with integrated production and mass distribution. Entrepreneurs, in order to maximize projects, either tried to control sources of supply to avoid competition or added new units to ensure the benefits of economies of scale. Large integrated enterprises with multiple function and working over a large area had greater potential for expansion. With their extensive marketing, manufacturing, purchasing, raw material sources, transportation and research and development facilities, these entrepreneurs found it difficult to manage the enterprise effectively. This led to the emergence of managerial capitalism. invisible and directly uncontrollable, *this class of professional managers, who controlled the working of the giant industrial enterprises and also influenced at times the market mechanism, was visible*. Hence Chandler refers to them as 'The Visible Hand'. He states that upto 1900 financial or family capitalism was present in the American economic system, where the entrepreneurs had the ultimate say in business decisions. By 1917 however, they were rarely involved in the decision making process and never negated the decisions of managers with respect of prices, output, deliveries, wages or employment. In his study of over 200 non-financial American companies in 1963 Chandler concludes that in none of them any family holds more than 80% shares, and 50% control by these families existed in only five companies. In fact, 169 or 84.5% of these companies were management controlled. In short, he concluded that managerial capitalism gained ascendancy over family and financial capitalism in the modern multi-unit enterprises in America.

*Alfred Chandler refers to Managerial Capitalism as "a new type of capitalism- one in which the decisions about current operations, employment, output, and the allocation of resources for future operations were made by salaried managers who were not owners of the enterprise"*

Reasons for the appearance of the Visible Hand (Managerial Capitalism) as given by Chandler can be summarized as under:

1. Multi-unit business enterprise replaced small trade enterprise when administrative coordination permitted greater productivity, lower costs and higher profits

- than coordination by market mechanism.
2. As the activities of many business units were internalized within a single enterprise a managerial hierarchy had to be created.
  3. Volume of economic activity reached a level that made administration coordination more efficient and profitable than market coordination.
  4. Once a managerial hierarchy had been formed it became a source of permanence, power and continued growth.
  5. The careers of salaried managers who directed these hierarchies became increasingly technical and professional.
  6. As the enterprise grew and its managers became more professional, the management became separated from ownership.
  7. These career managers preferred long term stability to maximizing current profits.

## 2. Need and Objective of the Study

As per Chandler's definition, the Visible Hand was a class of professionals developed to take over the management of traditional family businesses. Another term coined for this class of professionals was Managerial Capitalism. The need was felt to trace the development of this in Europe.

In order to determine the managerial system prevalent in Europe it was necessary to do an in depth study of a few firms operating in the region. Based on this the objective framed for the present research was to determine the management styles prevalent in these firms and try and trace the existence of Chandler's Managerial Capitalism as it existed in America.

## 3. Research Methodology

The present research is descriptive in nature and because it is an attempt to trace the existence of Chandler's Managerial Capitalism in Europe, it is a historical study of five firms operating in this region and the factors influencing the management styles of these firms. As such the methodology adopted is secondary, involving review of literature of the five firms during the 19<sup>th</sup> and 20<sup>th</sup> century.

The present paper aims at analyzing whether to what extent Chandler's "*Visible Hand*" appeared and controlled the industrial development of Europe. It is the outcome of a study of the history of five firms, *vis-à-vis.*, Marks & Spencer, Pasolds (Ladybird), Charles Early & Marriot (Witney) Ltd., Krupps and Volkswagen. After briefly reviewing each firm's progress, we try to trace the emergence of the managerial class as distinct from the owners and see to what extent they had a hand in the development of each firm.

## 4. Firm Histories

### A. *Die Firma Fried Krupp*

The firm of Fried Krupp was established by Friedrich Krupp (1787-1826) when he inherited enormous tracts of land around Essen along with property in the city. He founded the cast steel Factory in 1811 and dispatched Krupp bayonets to Berlin in

1816. On this death in 1826 after a life of failure, his 16-year son Alfred took over the firm and inspite of heavy odds and numerous hardships established the superiority of Die Firma Fried Krupp. During 1836-1842 he manufactured hollow forged muskets, in 1847 he sold his first steel cannon to Prussia. In 1851 Alfred made his debut at the London Crystal Palace Exhibition. In 1866 Prussia invaded Austria with Krupp cannon and in 1870 defeated Napoleon III with the help of Krupp guns. Alfred Krupp died in 1887 and according to his will established, for three heirs, the line of succession in such a way that the industrial part of the estate would not be divided, but would fall to one successor each time it changed hands. Thus on his death, his son Fritz Krupp became sole proprietor of Die Firma. His major contribution was the building up of a navy for the Kaiser in 1900 and drawing up production plans of U-I in 1901. On his death in 1902, his daughter Bertha succeeded to the firm. However, being a minor and a woman, the powers that be decreed that she could not be owner of such an important firm in the Fatherland. The Kaiser ordered the firm to be made into a corporation.

On 1<sup>st</sup> July 1903, the firm was transformed into Fried Krupp A.G. (Inc.) which served as both an operating company in Essen and holding company for assets in Kiel, Rheinhausen, Anhen, Magdeburg and elsewhere. All formalities of incorporation were observed and all were rendered meaningless. The Direktorium was rechristened Vorstand-German law required at least five shareholders. Krupp printed 1,60,000 shares; one was given to Bertha's uncle, three to members of the board and the remaining 1,59,996 or 99.9975% were owned by Bertha. The Kaiser chose as her husband Gustav Von Bohten and Halbach. On their marriage by royal decree, Gustav added to his name that of his wife and was known as Gustave Krupp. In 1907 Alfred Krupp was born.

During the First World War Gustave was conferred with the title of *Armourous of the Reich*. After the war, the Allied Forces dismantled the factory for armaments and peace time production began. During this period, beginning 1918, Krupp manufactured locomotives, rail lines, rail wheels, spoon and fork rollers, agricultural and textile machines, dredgers, motor scooters, cash registers, adding machines, movie cameras, optical and surgical instruments, steel bridges and stainless steel jaws for the young soldiers who had permanently damaged their own during the war. A control commission was established in Essen but in-spite of its presence Gustav began secret rearmament in 1920. When the Commission departed in 1926 satisfied by the absence of war production, Krupp's had already completed the designing of the 1940 war tanks.

In 1930 Hitler paid his first visit to Krupps, in 1931 Alfred joined the S.S. and in 1933 Krupp financed Hitler in the elections following which Gustav was appointed *Fuhrer of Industry*. In 1936 Krupp submarines had threatened France. Due to a stroke Gustav informally handed over charge to Alfred Krupp who wrote his first annual report in 1939. In 1940 Krupp armament was used to shell England over the channel. In 1942 Alfred was appointed chief director of the company and in 1943, the *Lex Krupp* was signed by Hitler whereby "The owner of the Krupp family's wealth is entitled to use this fortune for

the establishment of a family enterprise, with a specially regulated succession". Thus Alfred became the sole proprietor of Die Firma Fried Krupp when his mother passed on to him her shareholding of 99.9975% i.e. all but four shares of the firm.

Alfred's Direktorium issued its first order where all plant, office and branch enterprises were informed of the change from Corporation to the individually owned firm of Fried Krupp with sole ownership vested in Alfred Krupp. It also stated that the owner was answerable for the direction of the entire enterprise and that he had appointed a directorate to assist him. In January 1944 Alfred promulgated a decree wherein he stated that he alone carried the responsibility for and was the head of the entire firm. All matters of importance were to be submitted to him as well as members of the directorate for a decision.

In 1944 Alfred Krupp assumed massive powers through Hitler's orders, was responsible for the scheme and use of slave labour (Jews or Pows) and also for dismantling of enemy factories. In 1945 he was seized by the Allies. In 1948 Alfred was convicted by the War Crimes Tribunal at Nuremberg where all his property and assets were confiscated but he was released in 1951. On this arrival at Essen he began rebuilding the works. Krupp regarded himself as contractor of the world and began dealing with the underdeveloped countries. Half his trade was with them. He even began complete planning and erection of self-sufficient installations for the manufacture of iron, steel and metal together with total construction of adjacent housing projects, transportation systems and power plants, e.g., Rourkela. At the end of the first year of restoration Krupp's turnover had been nearly \$238 million. Within 3 years the turnover had quadrupled-a billion dollars' worth of business.

Alfred was so anxious to forget his career as armorer of the Reich that no mention of any weapon was allowed in the firms' advertisements and booklets. He entered the electronics, missile and atomic fields with great success. When Germany entered the Common Market, Alfred Krupp was the Market's richest and most powerful single industrialist. His firm was one of the seven with a four-billion-mark turnover. In the early 1960's he was worth \$1,120,000,000-nearly a billion and a quarter dollars more than what J.D. Rockefeller had accumulated in tax free America. From a pauper on his release in 1951 he had more than tripled his \$300,000,000 annual turnover under Hitler, by 1957.

While in the Ruhr he conferred twice a day with Beitz, his deputy, who brought problems to which the sole proprietor provided solutions. One typical session began with coal and its problems. Alfred nodded, produced a map pointed out untapped resources in northern Ruhr, lower Rhine and Netherlands. Then he unfolded a second map of Spain and asked Beitz to send teams to procure supply sources of U-235 for the firm. A third map of Canada appeared and Beitz was told to buy Algoma Steel Shares as Algoma had excellent oil fields. A fourth map; Labrador and a fifth: The French Riviera which Alfred wanted to buy. In 1967 Alfred was the richest man in Europe-the sole owner of 150 factories and mines turning out 3,573 products. However, in spite of his personal fortune, Alfred Krupp was in trouble. For all his inventory of absorption towers, refineries, steel mills, chemical plants ship-building and locomotive

construction yards, truck, bridge and turbine shops, he was indebted to 263 German banks and insurance companies to the tune of nearly \$700 million and there was no exist.

In order to survive, Alfred signed over the firm to a foundation and relinquished his and his heirs' title to the firm in 1968.

### *B. Volkswagen*

The ideas of Volkswagen, actually conceived by Hitler as a political bait, was to ensure the whole hearted support of the German nation prior to embarking on his ambitious plans which eventually led to the Second World War. In February 1933 while inaugurating the Berlin Automobile Exhibition, Hitler stated that his government would support any plan which would insure cheap cars for the masses. In the 1935 Exhibition he stated triumphantly that due to the abilities of an outstanding auto designer, the initial plants of a Volkswagen had been completed and the first prototypes would be tested within four months. (it actually took one and a half years).

The designer was Dr. Ferdinand Porsche who had been ordered to design such a car to be sold for approximately 950 marks (less than \$50) against the then existing lowest price models of about 1800 marks. While Porsche had already made a prototype for a small tough car for NSU, he was not cost conscious believing it was his duty to only design cars while the manufacturers would have to look after the cost angles.

However, with orders from Hitler, the Nazi Party Labour Organization provided the funds and a company was registered with three party officials as directors. Hitler laid the foundation stone on the 26<sup>th</sup> May 1938. By the time the plant was ready, war was in progress and about 3,00,000 people had deposited 280 million marks in saving stamps issued specifically for purchasing a Volkswagen. However, not one car had been supplied. Instead, by the end of March 1940, due to demand by the army a military version of the Volkswagen was being produced.

During the war a little less than one lakh cars were produced of which seventy thousand were the military version and included fifteen thousand amphibians. By 1944, sixty-five percent of the Volkswagen plant was in ruins. At the end of the war in 1945, the engineers of the power station of Volkswagen plant handed over the entire property to the American Occupation forces who handed it over to the British. The British zone did not have any workshop facilities and thus with their permission, the former Volkswagen employees started a workshop. Due to paucity of vehicles with the British and finding enough components in the plant, by the end of 1945, 713 vehicles had been produced in the plant. All told six thousand and thirty-three civilians, all former employees of Volkswagen were working.

The Allies decision to dismantle industries and repatriate them, included the Volkswagen plant. None of the governments, however, wanted the ruined plant and when private manufactures were offered the opportunity of buying it cheap, no one was prepared to accept it. Hence, the plant continued to operate as a manufacturing unit cum service workshop for the entire British Zone till September 1949.

During this period production of Volkswagens picked up as is evident from the table below.

Table 1

Year	Production	Export
1946	9878 Cars	-
1947	8973 Cars	56 Cars
1948	19220 Cars	4500 Cars
1949	46594 Cars	7171 Cars

In early 1949, the British asked Dr. Nordhoff to take charge of the plant. When the British left Germany, they handed over the plant to a Trust, representing the Federal German Government, the province of lower Saxony and plant employees, in September 1949. The trust placed the charge of the enterprise in the hands of Dr. Nordhoff, who recruited more professional people. The team of Nordhoff, his managers and employees strove hard. Extensive export drive was made in order to procure foreign exchange to finance replacement of plant and machinery. The result was a production of 90,558 cars in 1950 of which 29,048 were exported.

Table 2

		1952	1954	1955
American Imports	Volkswagen	1240	6343	34000
	British Cars	31281	26343	19463

Out of a total of 3,30,120 Volkswagen cars manufactured in 1955, 1,77,591 were exported.

### C. Charles Early and Marriott (Witney) Ltd.

Around 1818 the number of master weavers in Witney had diminished. Family firms owning factories- the Earlys, the Marriotts, the Colliers-were emerging. The industrial revolution had come to Witney. The Earlys installed spinning machinery driven by water power in the so called New Mill. In 1818 John Early purchased a number of double and single carding machines. Installed, the Earlys did most of the spinning for their own use but as years passed an increasing quantity was spun for other manufacturers.

Informal close cooperation between the Earlys, the Marriotts and Colliers existed in sharing of government orders. The firms also had an established export of blankets to Hudson's Bay Company of North America from as early as 1805 which continued till late. John Early took his son Charles into partnership in 1851. When John died the name of the firm changed to Charles Early and Co. in 1864. From then onwards began an era of modernization, expansion and consolidation. Charles inherited a comparatively small concern employing about 70 weavers. He gradually began to install power driven looms at Witney Mill. He also attended personally to buying wool. He purchased land around his premises. In 1881-82 he had a new warehouse block built which (with some additions in 1899-1900) was to do good service for over eight years.

Charles Early acquired a part of New Mill a mile upstream from Witney Mill but suffered from a disastrous fire in 1883. He had the Mill rebuilt and by 1894 became sole owner of the mill. He also bought the adjoining river bed along with most of the land on both sides.

By then his two sons had joined him as partners and were making useful contributions to all decisions and to general management. In June 1910 the firm became a private limited company under the chairmanship of Charles William Early, Charles son. While Charles William concentrated on buying, selling and wool blending, his brother James Vanner ran the Mill.

The main responsibility for conduct of the affairs of Charles Early and Co. devolved upon the sons of James Vanner -James Harold and Edward Cole Early. Harold was found at the Mill dealing with people and machines, Edward dealing with wool blending, costs and sales. When war broke out it was agreed that Edward should run the Mills while Harold joined the Forces. The post war period saw few important technical changes in the blanket trade except as to the kind of power used. The two inter-war decades were different from a trading point of view. In 1920 the company introduced a profit sharing scheme.

In 1939 came the outbreak of war. Four directors were left to carry on when Edward Early died in 1940 followed by the death of company's secretary in 1941. To make matters worse the number of directors declined to one i.e. Harold Early. 1945 found the company with three directors, all of them Earlys, owning between them all ordinary shares. During the post war period the company faced difficulties on account of re-equipment and then crash of the early 1950's when it lost over a third of a million pounds. During this period the company got the support of Hon. George C. N. Chubb and Sir Graham Larmor. Through sheer hard work the company recovered in 1957. During the late 1950's and in 1960's a number of new ideas led to important developments in spinning and dyeing at the company.

The Marriott family, like the Earlys, trace their history and connections with Witney back to the 17<sup>th</sup> century. During this period there have been links between the two families. In 1850's Marriott's had an old mixture of business interests. They were dyers for the leading Witney blanket makers- Colliers and Earlys. In 1900 they went in for manufacturing blankets when Mount Mill was constructed. Before long Marriott and Sons, blanket makers began to move ahead. Competition from them was a spur to Charles Early and company. However, both firms were complementary-Earlys catering to retail stores, Marriott's to wholesalers.

The Marriotts converted into a private limited company in 1909 but it was twenty years later that anyone outside the family was invited to join the board of Directors. The company went public in 1948. Marriotts was affected by a big fire in 1953 when the building housing the carding, spinning and warping departments was blazed and nothing could be saved. The next day the Chairman of Charles Early & Co. rang up the Managing Director and concluded his expressions of condolence and offers of help by saying- like everything else Marriotts do, you have certainly done this thoroughly. The restoration was thoroughly done too and with amazing speed within six months.

In the autumn of 1959, Early's Chairman was informed of Marriotts thoughts of merger by the chairman of Marriotts. Both firms were intent on the merger. The Marriotts acquired all

the issued preference and ordinary stock of Early's and the new company of Charles Early & Marriotts (Witney) Limited was announced with Richard Early as chairman. The Board comprised of extremely competent professional people with wide experience of the blanket trade.

Shortly after the merger, Chatham Manufacturing of North Carolina offered the company an entirely new fiber weaving process for manufacturing blankets. By the end of 1966 two looms were working three shifts and the new blankets were in great demand.

Another important development was the commencement of an association with Courtaulds Ltd. in 1963, when Courtaulds got a 20% stake in Early's. This led to ever increasing benefits to Early & Marriott in terms of research and development and technical and managerial knowhow. The old firm of Charles Early and Marriott (Witney) Ltd. has consolidated, centralized and modernized its organization; with top management augmented by new men and fresh minds; with confidence both of old traditions wedded to new techniques and is ready to step into a fourth century of blanket making.

#### *D. Marks & Spencer*

The history of Marks & Spencer starts with the arrival of Michael Marks, a Jewish immigrant in Leeds in 1884. Leeds was a rapidly growing town which was both a railway centre and a centre of the clothing, manufacturing and mining industries - in short a typical product of the industrial revolution. He began as a peddler but soon opened a stall, in the open market at Kirkgate, which consisted of a 6 feet by 4 feet trestle table and was open for business on Tuesday and Saturday. He found outlets in Castleford and Wakefield where the market was held on different days and thus ran business the whole week.

From the open market in Leeds he moved to its covered market hall which was open throughout the week. He introduced an innovation when he displayed his wares in pen baskets with clearly marked prices so that his customers could go in for self-selection and service. He introduced a change by classifying merchandise according to price and placed all those costing a penny in one section and the remaining in another section. Above the penny section he hung a board with the slogan- 'Don't ask the price, it's a penny'. This proved so successful that Michael Marks adopted this principle in all his stalls and sold nothing that cost more than a penny.

At first he managed all his stalls personally but soon appointed assistants in all stalls and was himself occupied in purchasing and distributing goods, supervising assistants and finding new location in market halls in Yorkshire, Lancashire and Cardiff. He married in 1886. A son, Simon was born in 1888 and a daughter, Rebacca, in 1890. By this time he was operating five penny bazaars at Leeds, Castleford, Wakefield, Warrington and Birkenhead, all selling under the slogan- "Don't ask the price, It's a penny". The next three years showed a steady growth in his business; he established a warehouse in Wigan and in 1892 opened a penny bazaar in the market hall in Bolton, in 1894 a shop in Chetlam Hill, Manchester. By now business was becoming too large for one man to handle and

Michael Marks was looking for a reliable person, to look after the warehouse, as a partner.

In 1894, he offered Thomas Spencer, an excellent book-keeper, a half share in his business. On 28<sup>th</sup> September 1894 Spencer paid Marks £ 300 for a half share and the firm of Marks & Spencer was formed. Michael Marks concentrated on supervising bazaars, buying and prospecting for localities where shops could be opened while Spencer attended to the management of the ware-house and central office, the reception of goods and their dispatch to the bazaars and keeping the accounts.

In the market halls, Marks & Spencer's Penny Bazaars established themselves as one of the main attractions because of their penny price and quality and variety of goods sold. The number of branches increased steadily. By 1900 there were thirty-six branches of which twenty-four were in market halls and twelve were shops. By 1903 the branches increased to 40, an office and warehouse organization had been sent up and the firm had carried out its first building operation. The centre of the firm had been moved to Manchester.

In 1903, the firm of Marks & Spencer Ltd. was registered with a capital of 30,000 £ 1 share of which 14,995 each were allotted to Michael Marks and Thomas Spencer. One share was allotted to each of the subscribers to the memorandum and articles of association (7) while the remaining three remained unallotted till 1906. Thomas Spencer retired in 1903 and died in 1905. By 1907 there were more than sixty branches throughout the country, only a third being in market halls and arcades. In managing the bazaars Michael was assisted by a number of inspectors. The burden however proved heavy on him and he died in December 1907.

The period from 1908 to 1914 was a unique one in the history of Marks & Spencer as these are the only seven years when the control and management of the company have not been firmly in family hands. By 1917 the board comprised of Siemon Marks Charman, Israel Sieff, A. Isaacs, A Davis (for Spencer Trust) and J Luther Green (Mrs. Spencer's Brother). By 1918, the age of penny Bazaars had passed. During 1918 and 1922 the company purchased freehold property and by 1928 it had 44 freeholds owned and 25 long leaseholds in addition to 61 short leases on tenancy agreements.

Siemon Marks visited America in 1924 and on his return decided upon a 5-shilling price range. Finance remained a problem but by 1924 the company's bank loans and overdrafts were £ 150,000. The company found it necessary to enter into direct contact with manufacturers once it adopted the 5-shilling policy. The merchandise became tremendous- in fact when the company went public in 1926, the prospectus issued stated that the range of goods handled had become very extensive and included haberdashery, hosiery, drapery, toilet requirements, glass, china and earthenware, stationery, toys, gramophone records and music, cutlery, household goods, hardware etc. By 1932, however, 70% of these items had disappeared from the stores. In his statement in 1930 the Chairman, Siemon Marks stated that of the company's assets of slightly over £ 3,000,000, £ 2,400,000 or nearly 80% was represented by freehold and long leasehold property. Profits had risen by over £ 1,00,000 to

335,000. In becoming a public company, Marks & Spencer was able to meet the problem of financing the very large investment required by the policy of creating a chain of superstores. Israel Sieff (Marks' brother-in-law) became a full time director along with two other members. Future expansion of the company after 1934 relied entirely on ploughed back profits.

By early 1939, the company was operating 234 stores, and of these more than half had been built or rebuilt since 1930. During this period over 150 extensions to existing premises had taken place. By the outbreak of the war Marks & Spencer had very nearly reached its present geographical coverage. By this time the company employed a staff of over 18,000. The growth of the staff both in the stores and at head office created new responsibilities with regard to their welfare and training. It became necessary to create a new department to manage and control various specialist activities.

The company continued to do well over the years as is evident from the table below:

Table 3

Year	Turnover (£,000)	PBT (£,000)	PAT (£,000)
1927	1,306	75	60
1930	3,605	335	261
1935	11,398	1,087	805
1940	27,031	2,379	848
1948	34,104	3,170	1,320
1951	65,836	6,082	2,557
1955	108,375	9,268	4,468
1960	148,023	17,806	9,081
1965	219,791	27,656	12,856
1968	282,306	34,071	20,321

Throughout, the company sought to reduce prices and improve quality of their merchandise. They began close interaction with manufactures and supplied them with expert technological advice which resulted in improvement of the machinery and profits of suppliers also. Slowly the company began concentration in textiles and food - its present merchandise. It has been responsible for the restructuring and restoration of the textile industry after the Second World War.

The Chairman and his fellow directors were all men of exceptional abilities, who brought to the management a somewhat wider vision than is commonly found among businessmen. Under Simon Marks' leadership and direction the board of directors constituted a peculiarly intimate and closely knit group, whose members were united not only by their business interests but by family ties. Harry Saches a director wrote - families are not always harmonious but here was a most intimate comradeship, a board which did not have to rely upon formal meetings but was in permanent session.

Throughout its history, Marks & Spencer has always remained a highly personalized business, in that it is very much the creation of a very small number of men who have controlled and directed its fortunes for a long period; it is also essentially a simple business in which, throughout the years, every effort has consciously been made to restrain to a minimum the bureaucratic and impersonal forces which tend to grow within any large organization. It is worth quoting the impression of Eric Pasold, in 1937, one of the company's suppliers. "The

Marks & Spencer family enterprise was fast developing from a mere chain store into a national institution. Simon Marks and Israel Sieff, Charman and Vice-Chairman, who had married each other's sisters, were the driving force round which the whole dynamic organization revolved. Like God, they were everywhere, saw everything and nothing happened without their approval. They appeared in the stores when least expected, saw that the salesgirls had clear fingernails, took merchandise home to measure, boil and wear, tasted food in the canteens and at night went through the desks of office staff to clear out unnecessary paper. The whole incredible concern was thus kept humming and for a supplier to grow with it was an exhilarating experience".

Both Marks and Shieff were elevated to the peerage. Lord Marks on his death in 1964 had been Chairman of the company for 48 years of which 38 years were spent in daily, almost, minute by minute collaboration with Lord Shieff who took over as Chairman in 1964. On his retirement in 1967, he was succeeded by J. Edward Sieff.

#### E. Pasolds Limited

The firm Adolf Pasold and Sons was established in 1891 in Fleissen which was at that time a part of the Austro Hungarian Monarchy. To begin with it made little else than fleece lined stockings. With the introduction of the railways, manufacturers began to sell their merchandise in Prague, Vienna, Budapest, Tarnopol, Innsbruck, etc. Demand increased and Fleissen manufacturers began to make other garments, mainly underwear. Adolf Pasold's son, Max entered the business in 1898 and proceeded to install power drive through the steam engine in the works. This enabled them to erect sewing benches in the factory. More knitting machines were introduced. In 1905 the premises became too small and a large four storey factory was built. Max Pasold became a partner in 1910. The trade was seasonal. During the First World War Max was called up for service several times but always returned from Prague with a government contract for army underwear. Britain's blockade cut off supply of food and all essential raw materials which came from overseas. Textiles became scarce and bloodstained uniforms of the dead were sent back from the front, washed, disinfected and then cut up and made into new garments. This kept the factory going. In 1916 Max bought a second-hand plant for breaking fabric clippings into fibers, a condenser carding set and two mules-self actors. With no previous spinning experience Max and his foreman, after a series of failures, spun coarse yarn from the reclaimed fibers which they successfully used as backing thread on the knitting machines.

Suddenly for Fleissen, the war was over and it became a part of the new republic Czechoslovakia. The republic inherited 60 per cent of the old Monarchy's industries but the factories were geared mainly to supply the territories of the old empire. New outlets had to be found, export markets developed.

Buyers began to arrive from various countries. British buyers appeared regularly and placed orders for ten, twenty and sometimes thirty thousand dozen of a single simple type of garment. Gradually, the firm began to sell 90 per cent of its output abroad, mostly to England and Holland. While

conditions in Germany went from bad to worse, industry in Czechoslovakia showed signs of prosperity. Max Pasold took advantage and purchased forty second hand circulars which doubled the knitting capacity of the firm. Other manufacturers followed suit and soon Fleissen became one of the largest suppliers of fleecy knickers.

In 1924, Max sent his eldest son, Eric to London for training for a year after which he joined the firm. The factory had improved considerably and Eric learnt to distinguish various yarns and fabrics. He went through the entire process of manufacture except dyeing at this stage and began helping get orders for the firms Directorate knickers. During 1925-27 Eric was shuttling between the factory and abroad. By the time he was twenty-one, he was selling independently almost a third of the total turnover. It was now that Eric began to set up an office in London. As the firm's business expanded, this became an obsession. However, before he could act on it, he was required to look after the business at home. He brought out the White Bear Cardigans and Sweaters by 1929 which became extremely popular. The firm purchased a factory in Leibitschgrund in order to ensure a steady supply of yarn. In 1930 Max Pasold died while Eric was in London. Henceforth, it fell on Eric to manage the factories along with his two brothers Rolf ( $15\frac{1}{2}$ ) and Ingo (13). Between 1927 and 1929 the firm had done well, increasing the turnover from 18,800,000 Krouch to 19,950,000 Krouch, but from 1930 onwards falling cotton prices and dwindling sales had a disastrous effect.

In 1931, Eric and Rolf decided to set up a plant in England. Eric entrusted the job of hunting for a suitable location to his agent, MR Hurst, in London and then placed orders for machines in Germany pretending all were to be used in the plant at Fliessen. A site was purchased in Langley, large enough to accommodate all future possible expansions. The money was smuggled out of Czechoslovakia with the help of the firm's bankers. Equipment was shipped to Britain from Fliessen but import duty had to be paid. However, with the introduction of the 20% tariff Fliessen exports of underwear were to end and the Pasold brothers thought they could capture the fleecy knickers market. Meanwhile Hurst, the agent continued to place orders for White Bear garments inspite of the tariff imposition.

The Langley plant was completed in 1932 but to their sorrow, the brothers found no buyers for their knickers. Experts had been brought from the Fliessen factory to train the British workers but a number of them had to leave before locals were fully trained due to expiry of their visas. For the next seven years the two brothers alternated between Langley and Fliessen. In 1933 the Langley plant purchased a ripple machine and slowly began ripple cloth production. After a number of failures and depressions the Langley plant began to run when Woolworths and Marks and Spencer began buying from it. In fact Marks and Spencer was purchasing 90% of Langley's dressing gown production.

In 1936 Eric was granted a British passport. This was followed by Rolf. Ingo however, the third partner preferred to run the Fleissen plant. The sales of both plants showed an upward trend from 1932 to 1937.

Table 4

Year	Fleissen/Leibitshgrund	Langley
1932	£ 72,000	£ 4,005
1937	£ 92,000	£ 75,813

In 1938, the Germans took over Fleissen and the firm's cash reserves in the Banks were frozen. The Langley plant installed its own dyeing machines in 1938. During 1938-39 Langley supplied goods worth £ 93,117 of which half were to Marks and Spencer. In 1939 the partnership became Pasolds Limited with a share capital of £ 65,000. During 1939-40 when imports from Germany became impossible, Pasolds began their own spinning Mill.

During this time, when business in shops was slack, Pasolds underwear and dressing gown sales were booming. They acquired Garments Ltd. in 1941. The yearly sales increased as shown below:

Table 5

Year	1939-40	1940-41	1941-42	1942-43
Sales	£ 120,000	£ 155,000	£ 181,000	£ 211,000

During the war Eric and Rolf taught cadets gliding, since they had both got pilot licenses and their own plane for business trips. From 1943 to 1945 however, due to the war Pasold sales dropped to £ 188,000.

In 1943, Pax Garments Ltd. was registered as wholesalers and all customers, except Marks and Spencer and Woolworth were supplied by it. Having acquired the Ladybird trademark in 1938, Pasolds put it to use on its children collection which was manufactured at Pax Garments Ltd. The Ladybird line was an instant success and Pasolds began exporting. The sales and profit figures given below speak for themselves.

Table 6

Year	Sales (£ '000)	Profit (£ '000)
1954	1,480	281
1957	2,640	383
1960	4,056	702
1962	5,300	849
1964	9,558	1,155

In 1952, Pasolds (Canada) Ltd. was set up under Ingo Pasold who during the first 10 years remitted a total of £ 3 million to Landley. Till 1964, Pasolds also acquired a number of textile mills. In 1957 Pasolds became a public limited company but the family retained 90% of the 2.2 million shares.

Management succession was a problem which the family could not solve. Eric and Rolf hired managers, tried to teach them and invited them over to evening lectures and discussions where Eric talked of the company's background, its aims, philosophy, etc. This did not solve the problem and the brothers felt that after them the enterprise would run aground without competent management. Courtaulds tried to acquire Pasolds with its two trademarks of Ladybird and Chilprufe, Eric resisted. But by 1966 he and Rolf realized that Pasolds could not run on as a family firm indefinitely. Pasolds approached Coats, Paton and Baldwin and in 1965 it acquired 54% of the share capital of Pasolds, shareholders kept 19% while the

Pasold trust and family retained 27% shares. The merger worked well and Pasolds continued to prosper and grow as is shown by the annual sales and profit before tax figures below:

Table 7

Year	Sales (£ '000)	Profit (£ '000)
1965	13,842	1,787
1966	15,478	1,770
1967	15,635	2,010
1968	16,178	2,120

## 5. Analysis and Conclusions

This section attempts to examine whether the visible hand was present in the firms studied and on the basis of that arrive at some conclusions.

The history of Krupp reveals that though the market forces determined the course of Krupps in the initial stages, from 1890s it was the owners who dictated to the market. This is evident from the Krupp firing range exhibition at Meppen where the owner would display the power of his armament to numerous heads of state, secure huge orders, make deliveries, collect payments and then at the next exhibition destroy systematically such armament by something better. The same heads of state would then place orders for the new arms realizing that the ones they possessed had become obsolete. This cycle would continue.

Being a multi business enterprise with numerous subsidiaries and plants Krupps had created a middle management hierarchy as also an executive board. However, all Krupp executives were mere puppets, obeying the commands of the sole proprietor. It was he who decided what was to be done, in what manner and by whom. In fact right till the dissolution of the Firm, its proprietors had considered themselves rulers of a private fief at par with Royalty in the world. It is evident that this mammoth multinational was virtually being managed by the owner with no trace of the professional managerial cadre- "the visible hand". The only exception that could be cited would be of Alfred's deputy Beitz.

Outsiders felt he was the originator of plans and decisions, but in reality he was acting as the mouthpiece of his master, the sole proprietor. Only towards the end of the firm's existence did Beitz take some independent decisions regarding sales to iron curtain countries on long credit terms and this only hastened the end of Krupps as it precipitated the already precarious financial position of the firm.

In the Volkswagen story we see that what started as Hitler's political bait in 1937 had become one of the most popular cars in the world within 10 years of its introduction. The success of this venture can be attributed to a number of factors such as:

- 1) The hard work and basic research of Dr. Porsche and his team of professionals in development of a new car.
- 2) Easy availability of funds, from the Nazi Party coffers, which made it possible to get the most advanced technology and equipment.
- 3) No interference in the management of the works by the owners.
- 4) A professional managerial cadre (German professionals coming back from America) and efficient and dedicated

personnel.

- 5) Protection and encouragement given by the British occupation forces from 1945 to 1949 and finally,
- 6) The caliber of De Nordhoff and his managerial team and their dedication towards reconstruction and successful running of the plant.

In Volkswagen one sees an absolute reversal of the policies and managerial practices adopted by Krupps. The only similarities are the patronage and active participation of Hitler's Nazi Party in both ventures- which contributed greatly to their success, and the end result of both being looked after by an autonomous trust or foundation. Beyond these similarities everything differs. One was a single product company, the other a multi business sole proprietorship, one was professionally managed, the other was owner managed. One concern was influenced by the market forces, the other influenced them.

In short though both Krupps and Volkswagen were influenced by the political party in power, they differed on all counts including the fact that Volkswagen is the story of professional managers – the Visible Hand, while Krupps is evidence of the entrepreneurial or family commercialization that Chandler spoke of.

Charles Early and Marriott (Witney) Ltd. has been managed by family entrepreneurs till the mid twentieth century. Before the merger of the two firms, each continued to expand in spite of various hardships and fire hazards. It was only from 1938 that the firms have taken outside directors on their boards. As is evident, however, the major developments and expansions have taken place during the 1950s and 1960s when a majority of the board comprised of well qualified professional members who were specialists in their fields. A number of them had shareholding in the company also. Thus we can state that it was the owners turned professional managers who guided the destiny of the enterprise. If we agree to Chandler's classification of such owners as full time professionals then it is proof of the Visible Hand, though it is obvious that this Hand was slow in arriving on the industrial scene at Witney. If one disagrees with this classification by Chandler as I do, then per force the major managerial talent was supplied by the owners.

The history of Marks and Spencer shows its humble origins in 1884 when the market mechanism influenced practically all decisions of an entrepreneur. From such modest beginnings it has grown into a national institution due to the abilities and efforts of Siemon Marks and Israel Sieff. In spite of going public, the company has remained under the control and management of the founder family. There can be no doubt that a managerial hierarchy exists, due to the company's phenomenal growth, on whose efficiency the success of the company depends, but they too have been motivated by the plans and visions of Marks and Sieff who guide them. In fact, the top management i.e., the board of directors, is basically an extension of the family. As such in spite of the gigantic size of Marks and Spencer its management and ownership go hand in hand.

The company's history leaves one with a feeling that had the professional managerial cadre taken over top management functions after the founder's death, Marks and Spencer would



not have acquired the position it has today due no doubt to the fact that the values and aspirations of such a cadre would have differed considerably from those which have now been passed on as a legacy.

Pasolds Ltd., a company begun with smuggled funds in Britain shows what the determination and courage of a family can do. From a loss of £ 686 in 1933 to a pretax profit of £ 2,120,000 in 1968 speaks highly of the managerial caliber of the brothers who founded it. Here again we see that till 1905 the enterprise was managed and controlled by the owners whose efforts brought Pasold's to its present position. They relied on their friends and employees for the smooth functioning of the business and created a middle management hierarchy when they acquired numerous concerns, but always held themselves responsible for the firm's health. Even the 1965 decision to merge with Coats was not taken by the owner managers under duress, but on a prediction that it would be a long time before their children could succeed them, due to an age difference of about 30 years. They felt that during this period it would not be proper to hand over the organization to a cadre of people who had no ties with it but those of a salary. The decision to merge was taken as the owners probably felt that no hired professional would take the risks they had taken or view the interests of the enterprise before his own. Thus Pasolds again is the success story of a family controlled and managed organization with no evidence or trace of the professional managerial class or visible hand.

On the basis of the histories of the firms studied one finds that of the five, only Volkswagon gave concrete evidence of the visible hand since its inception. Among the other four enterprises, Charles Early & Marriott (Witney) Ltd. has opted for some top level professionalization, while Pasolds Ltd. by merging with Coats, still largely remained owner managed and controlled as did Marks and Spencer.

The obvious question that can be asked here is why the delay in emergence of managerial capitalism in Europe as against America, keeping in view the firms studied. It would obviously be folly to generalize on the basis of such a small sample but an attempt can be made to find reasons which may be proved or disproved by a more detailed study.

One of the obvious though untested reasons for the slow development and acceptance of managerial capitalism in Europe was probably the size and nature of the domestic markets. In contrast to European countries, the national income and population of America was thrice that of Britain by 1920 with the fastest growing market in the world. European countries on the other hand were faced with a diminishing market for their products especially after the First World War,

due to the imposition of tariffs on imports etc..Only Britain with her colonies had an open market, but as competition was not great entrepreneurs were cooperative.

The markets of Europe were not only small; they were heterogeneous with a wide income disparity. Markets were defined on class lines and being old firms meant that business arrangements had become routinized and rigid.

Small and slow growing domestic markets in Europe lessened the interest of manufacturers in adopting new mass production techniques and also reduced the incentive to build large marketing and purchasing organizations.

Cultural and social differences may also have played a role in delaying the coming of the large managerial enterprise with its managerial capitalism. While in America the Sherman Act hastened the growth of big business, in Europe a family firm federated with other such firms to assure continuing profits. Owners or their representatives made decisions on price, output and coordination at weekly or monthly conferences. Often family preferred not to expand the enterprise if it meant loss of personal control.

Along with the above, one major reason which could be responsible for the slow growth of large firms with managerial capitalism (visible hand) in Europe seems to be the continued disruptions in the economy, e.g., the war of Roses, 100-year war, the French Revolution, Crusade Campaigns, etc., America on the other hand has had a period of stability in which business has had an opportunity to grow. In addition, Europe has borne the direct brunt of the two world wars. As a consequence, these countries have had to devote more effort and energy in reconstruction and revival of their economics and hence not been in a position to concentrate extensively on expansion of their businesses and markets. In contrast, America has never been directly attacked and in fact has profited by the two wars. Hence while American business grew with its managerial capitalism by 1920, Europe began concentrating its efforts in this direction only around the early 1950s.

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