

Chandler defines managerial enterprise as “ those industrial concerns where Decisions as to current production, and distribution and those involving investments in facilities and personnel for the future production and distribution are made by a hierarchy of lower, middle and top salaried managers”(Chandler 1993). Therefore a key aspect of managerial enterprise is separation of ownership from control, hierarchical structure and investments in three key areas. Chandler states that the adoption of managerial enterprise for the past century has been engines of economic growth and transformation in modern economics.

According to chandler managerial enterprise are located in large-scale capital-intensive industries, as these industries are large and can obtain diverse sources of finance from stock markets and venture capital groups, which is needed for vital investments. Due to the capital-intensive industries being of a large scale they can benefit from cost advantages of economies of scale and scope. Chandler argues that these cost advantages can only be maintained in an organisation if management make long-term investments in three key areas. These investments are regarded as the “three pronged set of investments in manufacturing, marketing and management”. According to chandler by making investments in these three areas it allows a company to exploit the economies of scale and scope to the highest degree, therefore benefiting from cost advantages.

Investments in marketing, management and manufacturing helped create the managerial enterprise along side with a hierarchical structure. As by investing in manufacturing and technology an industry can exploit its economies of scale and scope, investment in marketing and distribution networks aims to increase the volume of sales and keep the volume of sales in line with the new volumes of production and for an industry to take advantage of these benefits owners have to invest in management to coordinate and control the manufacturing and marketing aspects. (L. Hannah 1991)

By investing in these areas it can provide industries with first mover advantages. By first mover advantages chandler means the industries, which are first to make the three pronged investments in manufacturing, marketing and management. The first movers gain advantages by dominating the industry. By being the first entrants in the industry they are able to dominate the market making it difficult for challengers to compete. Therefore if an industry failed to make an investment, once the opportunity was lost and taken by the first movers it was difficult for the industry to regain its position in the market. This can be illustrated by the main frame computer industry as there were several pioneers that made large investments in the industry, however it was IBM which invested in marketing, management and manufacturing that made it the first mover in the computer industry, therefore it benefited from cost advantages. The UK failing to invest in marketing, management and manufacturing in the dye industry resulted in German companies which did invest gaining the advantages of being the first mover. The competitive advantage that Germany gained from being the first mover demolished Britain’s comparative advantages in this industry.

Therefore Chandler’s main argument was that managerial enterprise emerged when the business could be operated more profitably by a system, which centralised managerial hierarchy than by a means of decentralised market mechanism.

Therefore managerial enterprise can contribute to the success of leading economies as through three-pronged investment and structured hierarchy of management economies can gain competitive advantage over other nations by benefiting from the cost advantages of economies of scale and scope. Chandler argues the adoption of managerial enterprise in the USA and Germany has led to the success of these economies.

The USA became the world's leading industrial nation before World War I, its performance exceeded that of Germany and Britain, Chandler argues this was down to the USA organisational hierarchical structure and due to the three pronged investments which the USA made in its industries. Therefore the managerial enterprise in the USA contributed to its success along side with the USA being an early industrialised, having large companies that can benefit from cost advantages and having a large home demand. Therefore managerial enterprise was important to control and coordinate the markets.

Managerial enterprise can contribute to the success of leading economies, however the extent to which Chandler's managerial enterprise model can be applied to differing nations is up for question. Chandler's model of Managerial enterprise is based on USA experience, therefore it is said it is difficult for nations to follow the model. Due to the model being influenced by America, the model doesn't take into account the size of other economies in relation to America. As America is a larger economy than Germany and the UK, therefore the sophistication of the organisations will be different, as size of the companies in the USA are larger, they have greater home demand, therefore a larger scale of production compared to other economies, which may be smaller in size therefore may find it difficult to follow the model.

Chandler assumes that the "managerial hierarchies on the American model are the optimal organisation in all countries at all times in the significant range of capital intensive manufacturing industries which he defines as crucial to industrial growth" (Hannah 1991). However there is evidence to show that managerial hierarchies are not the optimal model and that other forms of organisational structures can exist which can provide same advantages and economic growth. For example in Japan, it does not work on managerial hierarchies instead it uses a system of networking, involving sub contractors and inter-firm networks. In Japan "firms remain small and concentrated in particular market niches because focal factories excel at full product line diversification while interfirm networks manage product and markets outside the focalised scope of single-and related product firms" (Fruin 1994). Therefore this is a contrast with the managerial enterprise model, as the managerial enterprise in America tends to be of a large scale. Therefore this shows that many forms of organisation structures can exist and that there isn't one best way of structuring an organisation.

The model does not take into consideration the differences that might exist in national circumstances for example "differences in educational systems, cultural values and labour organisations accounts for major differences in labour recruitment, training and capabilities between firms in Britain, Germany and the USA" (Alford 1994). As these differences can account for and explain performance levels of an industry for example in Britain the external factors are seen to be a major reason for Britain's lack of

corporate efficiency over a long period, rather than failure to make three pronged investments as Chandler argues.

The model can be regarded as being narrow and single minded; as the model sees the USA as the ideal type, it doesn't take into account an economy's individual circumstances. As Gerschenkron has stated that different nations can be at different levels of backwardness and need different things for industrial growth. Due to conditions varying in countries it can explain the different forms of organisations that may exist, therefore a managerial enterprise structure may not be suitable for all nations as they may be at different levels of backwardness, therefore institutions can be substitutes for each other and there can be alternative paths to economic efficiency, therefore there is no ideal model that could be applied to every nation.

Therefore other forms of structures can exist for example the Japanese network system and the Chinese family business, which are not managerial enterprise but are still successful. The Chinese economy is successful despite not having a managerial enterprise. The Chinese family business works on a small scale, they are flexible but are centralized organizations. They don't have managerial enterprise, as there is no separation of ownership and control.

In conclusion, managerial enterprise is an important model and has contributed to the success of economies as evident in the USA and Germany, by making investments in the three key areas of manufacturing, marketing and management and adopting a hierarchical structure it allows economies to gain cost advantages in economies of scale and scope which can lead to the success of economies. However the model does not take into consideration the factors of differing national circumstances which are important and needs to be considered as the model is based on American experience and does not consider the circumstances of other nations such as how backward a nation is and whether a managerial enterprise will be the most successful model for it to adopt.

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QUESTION No.& TITLE: 1) How might “managerial enterprise” contribute to the success of leading economies? To what extent is it a model that can be applied to in differing national circumstances?

4) Do you accept the view that HRM and training in Germany and Japan have provided them with competitive advantage?

## **REFERENCES**

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In this essay I am going to examine the HRM and training systems in Germany and Japan and discuss whether they have provided them with a national competitive advantage. A comparison of the HRM and training systems in these nations will be made along with the systems of other nations including the UK and USA. The essay will be structured by focusing on four key areas, which are, industrial relations, work relations, employee relations and education and training.

Industrial relations is concerned with employee representation and negotiations. Industrial relations in Japan is an enterprise based union system. The enterprise unions are organised at each firm rather than industry wide. Therefore the unions are company based and internal within the organisation. The unions are made up of mixed employees within the organisation. The enterprise unions will consist of white-collar workers as well as manual workers, therefore the unions consist of employees at all levels throughout the organisation, this promotes the value of equality within the organisation. The advantages of having an internal, company based system is that it focuses on the issues concerning the employees and the organisation, it is easier to deal and respond to employee issues and requirements as it is local. However how well the employees are represented is up for question as the union is company based.

However industrial relations in Germany differs compared to the Japanese model. As in Germany the state plays a vital role in industrial relations. Industrial relations in Germany is a long formal system compared to Japan, which is internally organised, informal and company based and not national or regional based as in Germany. In Germany trade unionism is very important, as Germany is heavily unionised compared to nations such as the USA. Trade unions in Germany represent the whole industry and collective bargaining and work councils are a legal requirement and employers have to deal with work councils whenever the employees request it. Under German labour law, employees are protected from unilateral decisions by management, as the protection is organised through work councils. By having work councils it encourages employee participation in issues concerning the employees. Work councils have certain degree of power to reject management plans and decisions concerning employees. Work councils also exist in Japan, however they are less formal than Germany and the state is not involved. German work councils have a greater impact than the Japanese due to them being highly formalised involvement of the state and legal system. Therefore Germany and Japan have very different systems concerning industrial relations as the German system is highly formalised compared to the Japanese. However both systems are successful in representing employees compared to other nations especially the UK. As it is evident that both systems have the ability of resolving industrial relations in a coherent and satisfactory manner compared to the UK where they are unable to solve issues in this way. By having a system where disputes can be resolved in a sophisticated way it results to a better relationship between employers and employees leading to the employers sharing the same goals as the organisation.

Pay and bonus systems are seen as critical issues to industrial relations. In Japan wages increase with the number of years of service with an organisation. Therefore seniority based pay is a common feature of the Japanese system. Importance of equality within the organisation is emphasised by the small differences in pay between the employees at the top and bottom of the organisation. There is a narrow

gap in pay differentials compared to western countries, this tells us about the importance of Japanese have on consensus and how the interests of the company are also the interests of the employees, as there is a narrow gap therefore removing status differentials. A narrow gap between the levels of pay is also evident in the German system, as wage differentials across firms and industry are relative low due to industry wide collective bargaining, and centralised collective bargaining makes the wages difference between low skilled level and skilled workers small.

Second area HRM, is work relations. This area is concerned with how the firm organise, utilise and manage its resources and how you get the best out of the employees. The Japanese system gives high degree of empowerment to its employees, as the employees can be left alone to conduct their work and sort things out. The Japanese HRM practices encourage and promote employee participation and involvement, which can be linked to an improvement in a firm's economic performance therefore providing competitive advantage. A major aspect of Japanese HRM system is the emphasis on teamwork rather than individual job tasks as USA employees are encouraged to do. Teamwork is achieved through techniques such as quality circles, problem solving teams and TQM. Teamwork helps to make jobs wider in scope and emphasizes flexibility. As employees are trained in many areas of work not just specialise in one, which is evident in the UK. Japanese believe that teamwork increase productivity and has helped to gain competitive advantage as when a problem occurs by working in a team, employees can work together to solve the problem, therefore team peer pressure rather than management supervision enforces higher productivity and quality. Teamwork and quality circles are also evident in Germany, "some representatives of unions and work councils regard teamwork and quality circles as a first step to 'codetermination at the workplace'". Before the 1980s teamwork and quality circles were not evident in Germany due to Japanisation, Germany has adopted these practices due to the benefits they offer especially in the automobile industry.

The third area of HRM is employment relations. This section is concerned with "they way people are recruited and employed, job tenure, and reward systems". Japanese firms identify new candidates by having close relations with high schools and industrial schools in their regions. This is also similar for the German system but offer vocation courses and entrepreneurship, therefore training is based on work experience of the individual and is not company based as in Japan. The Japanese firms have invested in their employees and have developed an internal labour system which is promoted by life time employment, seniority wages and extensive fringe benefits, the characteristics of Japanese HRM can explain the success of the nation. Therefore employment is based on long term not short, as in the UK and USA as employees are first to go, when firms are facing financial difficulties. By having a strong internal work system and offering lifetime employment Japanese workers don't mind starting at the bottom of the organisation, as they know with time they will be promoted within the business.

The features of the Japanese HRM system are interrelated and complementary with each other; as you can't have one feature without the other. For example training and lifetime employment are inter related. As the Japanese invest in its employees and train them as the employees are viewed as an asset and to get the best out of them investment in training them is vital. By offering life time employment the employees

are going to stay with the organisation for a long term basis, therefore see a point in training them as they are not going to leave the organisation. By offering lifetime employment, the employee is loyal to the company, which is seen as a motivation factor, resulting in Japanese having a well-committed and motivated workforce. However in the UK the labour force was highly externalised unlike Japan. "They hired and fired as market conditions dictated", therefore did not see the point in investing in the employees. However unlike Japan stable employment is not achieved through long term incentives such as offering internal employment, seniority pay. Employees stay committed to a firm due to the role of the state and the German legal system. Due to industry wide collective bargaining, employees have a lack of incentive to change firms because of higher wages, as the wage differentials are small across firms due to industry wide collective bargaining. Also the German legal system protects employees making it very difficult to sack employees very easily, unlike in the UK and USA. Therefore this results in German firms investing in the employees by training them.

The last area, which is going to be looked at, is training and education. Both nations see the importance in training its employees, as this can result in a flexible, motivated workforce. Germany and Japan viewed training as an investment and not a cost which was the view historically held in the UK. It has been argued that Britain's lack of interest in human resource development and training has contributed greatly to many British companies failure. Training in Japan is company based. For example training in Japanese still mines consists of training in "production skills, communication and problem solving skills, and a set of other activities designed to improve workers understanding of production issues", therefore being involved in team work, quality circles training in the philosophy of Kaizan, with the emphasis on continuous improvement. Training is provided through a life time education system within the organisation as employees are trained throughout is career. Employees are trained in different production areas, resulting in employee job rotation and flexibility in the workforce. In Germany employees tend to be highly skilled like in Japan, but training takes place within a multi employer and a public system of occupational training. These skills are portable and flexible and are related to wide range of occupations rather than a specific firm like in Japan. Due to the education system in Germany, labour, training and skills are diverse there is not a uniform system as there are three main types of schools in Germany offering different courses, formal vocation, intermediate vocation concerned with the service sector and the academic courses. This results in a diverse work force.

Therefore when looking at all the areas together, it can be said that German and Japanese HRM systems did provide them with a competitive advantage over other nations. As Germany and Japan had a competitive advantage in the nature of its workforce, due to its training its employees, the level of skills of its employees, flexible and motivated workforce and the ability to resolve issues in an coherent and satisfactory manner. These characteristics of the workforce were not evident in other nations when taking an historical perspective. Many nations including UK and USA are adopting Japanese HRM practices such as teamwork, quality circles, and investment in training employees. The levels of Japanisation are further in the UK, but a little impact in Germany, as Germany already has many of these practices in its work systems, therefore don't need to make much changes.

Therefore to conclude it can be said that HRM and training systems in Japan and Germany have provided them with competitive advantage. However a historical perspective has to be taken as the HRM practices were more important in certain time periods especially in the 1950 and 1960s for Japan. However culture and attitudes in Japan are changing therefore some of its practices won't be as appropriate as they were back then, therefore the system needs to be changed if they still want to remain competitive. The Japanese and German HRM and training systems differed however the concept of functional equivalence needs to be considered. As even though the systems of both nations differed they still achieved the same outcome of a flexible, well-motivated skill workforce even though took a different approach. This suggests that there isn't a ideal HRM and training system which a nation need to adopt to remain competitive, systems may look different but by having the same objectives and equivalence, the same things can be achieved. As factors such as national culture, the role of the state, how backward a nation is, skilled labour available will influence the HRM and training system of a nation and also are factors, which will contribute towards a nation's gaining national competitive advantage.