

2008 ABH conference:

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Family Firms, Innovation and Networks: the Interwar British Printed Textile Industry

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- Focus on the printed textile industry in Britain - the cotton industry (spinning and weaving) has a substantive historiography on its decline and the structural and investment strategy issues
- Consider the Chandlerian/ Lazonick arguments against evidence of strategic approaches in the interwar printed textiles industry
- Place the evidence of the interwar printed textile industry within debates on family firms and networks

Core argument:

The most successful printed textile firms were those family firms that took an entrepreneurial approach in developing new products; not those that attempted to control the market using defensive common action by industry networks or negotiations towards large scale vertical combinations.

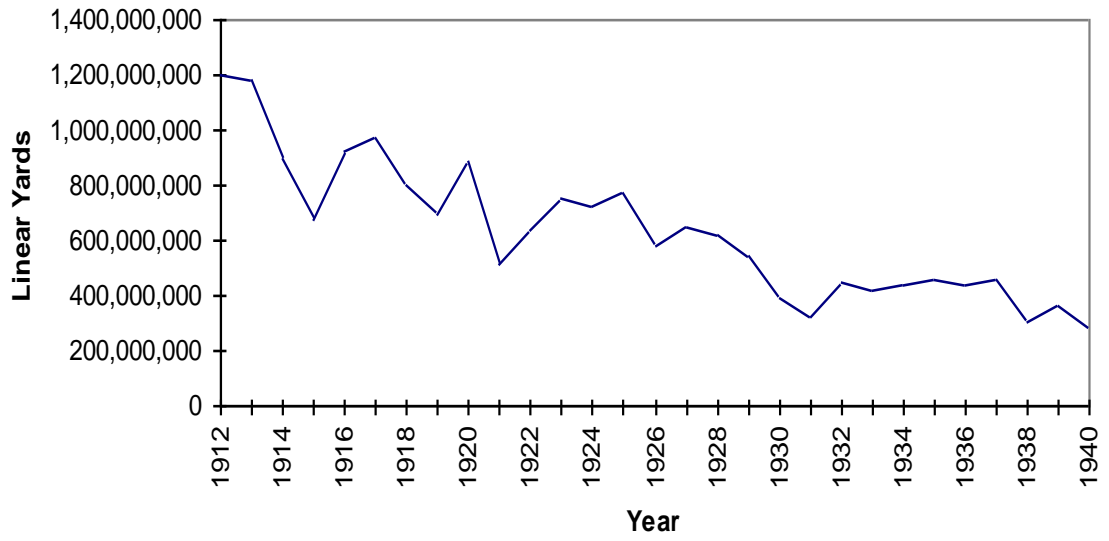
National competitive structure of the industry

- British approach in interwar printed cotton industry: short-run differentiated products (Turnbull, 1951); the home market a Schumpeterian fast moving fashion industry, with intensive technical innovation
- American: integrated high volume standard lines, mainly to home market, greater labour productivity, increasing price-cutting (Turnbull; Rose; Leunig; Broadberry & Marrison)
- Japanese: highly vertically integrated, government subsidised, low wage, high volume imitative standard lines, cost leader strategy



JCCTO, *Cotton Trade Statistics*, 1939
(USA figures are printed and dyed fabric)

Quantity of British Printed Cotton Exported



Turnbull, G. 1951

Response to context: theory

Chandler (1990: 285-6, 334) - 'Entrepreneurial failure in Britain in the Second Industrial Revolution was due to the failure to make the investments in production, distribution and management and create the organisation essential to compete . . . in the textile industries, attempts to reorganise and rationalise production processes by creating large managerial enterprises seemed doomed to failure as neither the needed organisations or organisational capacities existed.'

Lazonick (1986); Mass & Lazonick (1990) - decline of cotton industry was due to failure to create large vertically integrated corporations with high throughput technologies.

Garside (1977) - inadequate response of spinning and weaving organisations: did not take up schemes of industrial reorganisation, amalgamation and standardisation as recommended by the cotton unions.

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Broadberry & Marrison (2002) - American comparison disproves the Mass & Lazonick argument - poor results of the vertically integrated standard line strategy.

Feinstein (1992) - integrated spinning/ weaving firms were no more successful than specialised ones; Dintenfass (1988) and Supple (1989) coal industry research did not support the hypothesis that large-scale corporations would be advantageous.

Government integration schemes:

Board of Trade

- The 1929 Inquiry by the Sub-Committee on the Cotton Industry for the Committee of Civil Research was established to investigate improved methods of marketing, vertical co-ordination of the industry and a reduction of costs of production. It was established to investigate improved methods of marketing, vertical co-ordination of the industry and a reduction of costs of production. It recommended that other sections of the trade should be able to negotiate with each section of the finishing industries as a separate entity and that merchants and finishers should discuss ways of producing finishes more cheaply (PRO BT 55/ 5).

- The Cotton Industry Enquiry by the Economic Advisory Council Committee in 1929-30 urged the industry to co-operate under the JCCTO in vertical integration, with better organisation of the merchants, as part of a series of amalgamations into larger units by merchants, spinners and manufacturers. This would enable them to form a definite production policy and enter into arrangements with the finishing organisations (PRO BT 55/ 18).

Bank of England

In cotton production, the Lancashire Cotton Corporation was an amalgamation/ rationalisation project funded by the Bank of England that bought 96 mills in 1929-30 and had scrapped 10 million spindles by 1934; in 1929 Combined Egyptian Mills (15 mills specialising in the finer Egyptian cotton) and the Quilt Manufacturers' Association were formed.

Industry combination and rationalisation schemes

- A Closed Works Scheme was agreed between the CPA, BDA and BA in December 1927, that if one of the Associations closed a works, the other two Associations would pay a quarter of the costs each: the land was leased out under a covenant preventing it being used in the textile trade.
- A voluntary scheme in 1928 to establish a company by the Associations to buy up and close down or run at a reduced level print, dye or bleaching companies founded on lack of finance
- The FCP established a State of Trade Committee in summer 1934, resulting in a scheme to introduce a closed industry with a quota system, entitled 'The Calico Printers Reorganisation Scheme', which was put forward to the Board of Trade on November 16th 1936. The scheme was not approved by the Board of Trade, on the grounds that it would undermine efficiency and exclude newcomers. Finally the Cotton Industry (Re-organisation) Act was passed in August 1939, but not put into effect due to the war. It contained minimum price schemes with elaborate safeguards and redundancy schemes by acquisition.
- The Dyers' Graded Price Agreement of 1938 was a quota production system for piece dyeing, agreed by the Dyers Association, the Artificial Silk Dyers Federation and unallocated dyers between 1934-8.

Market focused integration schemes:

- 1929 proposal to the JCCTO to form market focused companies that would produce and market goods for a particular trade (the FCP would subscribe to the articles of the controlling organisation) (M75/ CPA Directors' Minute Book No. 12, 12/11/29).
- Lennox Lee (Chairman of the CPA) proposal of merger of the three finishing combines and the merchant block to the 1930 Cotton Enquiry of the Economic Advisory Council Committee (PRO BT 55/ 18).
- Ellinger & Ellinger (1930) scheme of horizontal integration of the merchant block.
- Geoffrey Turnbull 1935 scheme for market focused merchanting organisations, developing into vertically integrated combinations (Turnbull, 1951).

Networks

Manchester cotton industry epistemic geographic cluster - external economies of scale (Broadberry & Marrison, 2002)

Network structures:

FCP (Federation of Calico Printers)

Allied Association of Bleachers, Dyers, Printers and Finishers

Joint Committee of Cotton Trade Organisations

Manchester Chamber of Commerce

Federation of British Furnishing Textile Manufacturers

DIA (Design and Industries Association)

Manchester Royal Exchange

Textile Institute and Shirley Institute

Manchester Art Gallery

Manchester School of Art

Historiographical Views:

Rose (2000) - FCP price agreements effective

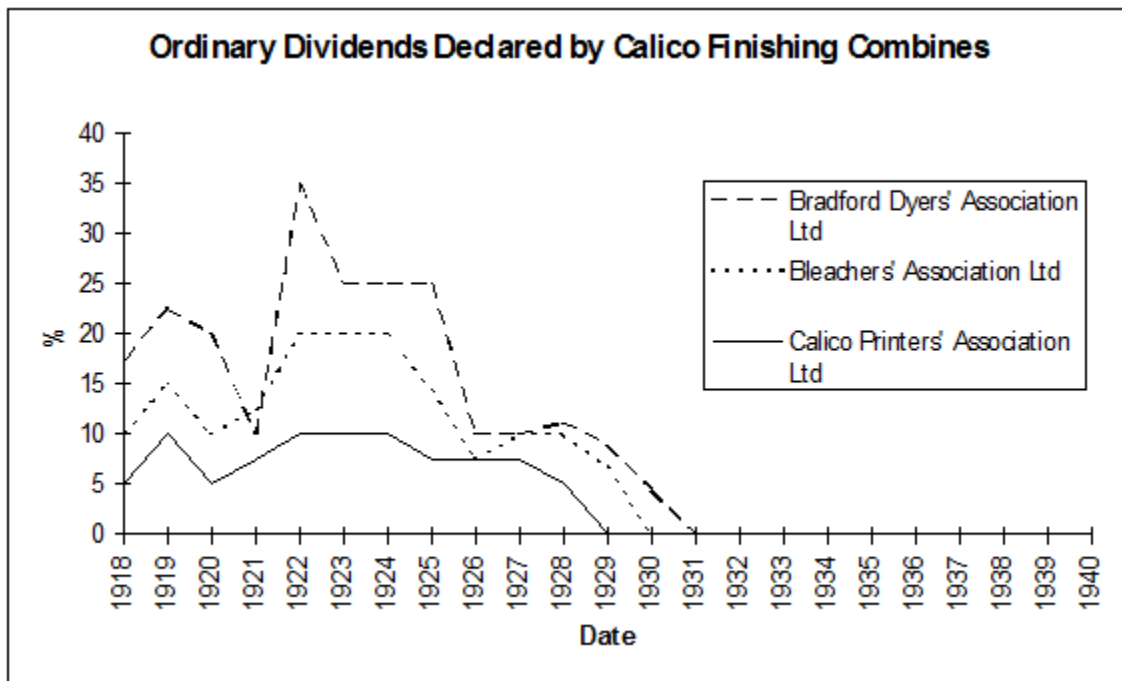
Bowden & Higgens (2003) - FMCA spinning network had limited effectiveness in price maintenance and short term working; the woollen industry had no network schemes, an entrepreneurial strategy of flexible, high value specialisation with a home market focus, and was economically successful

Strategic group:

Finishing combinations - CPA, BDA, BA

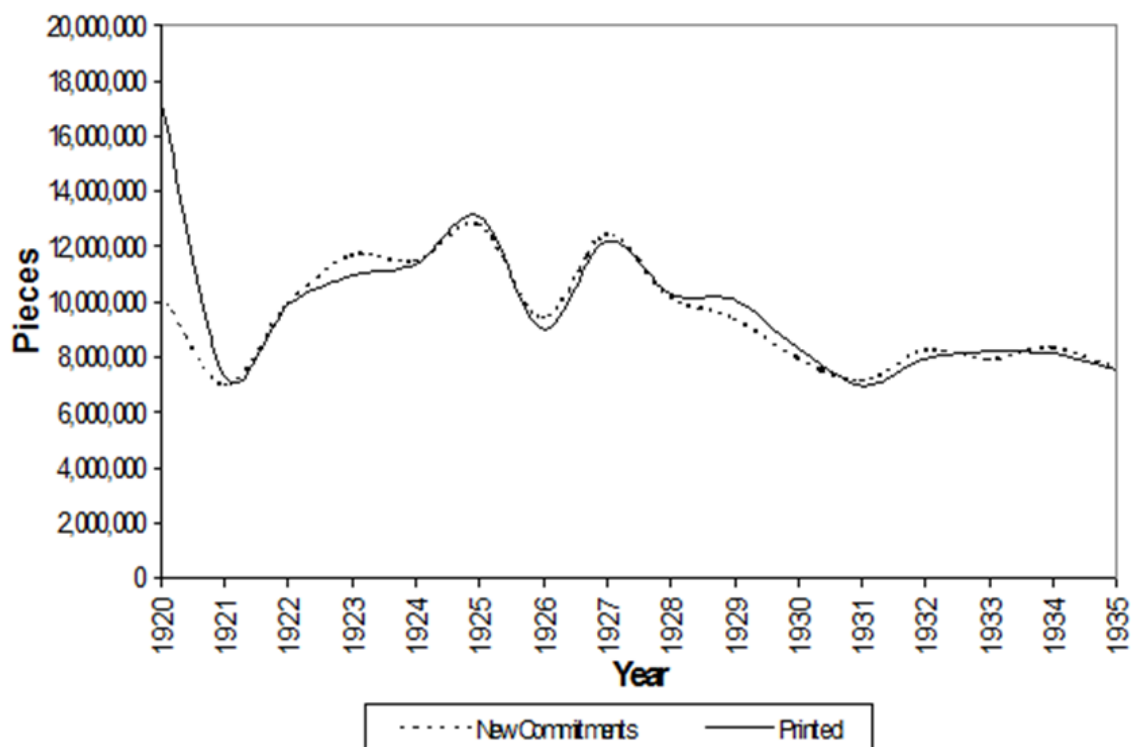
Slow decision making

Some innovation - e.g. path dependant specialised product areas and designs purchased from Manchester independent studio

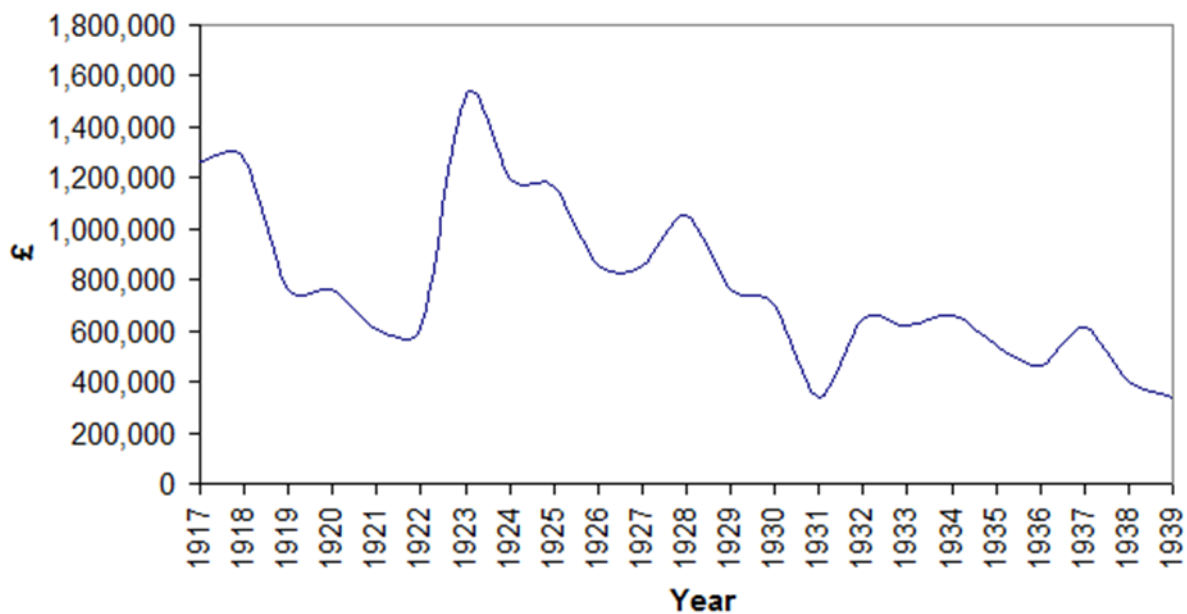


The combines focused on rationalisation, industry integration schemes and the establishment of production facilities in tariff protected export markets

CPA: Volume Printed and Ordered



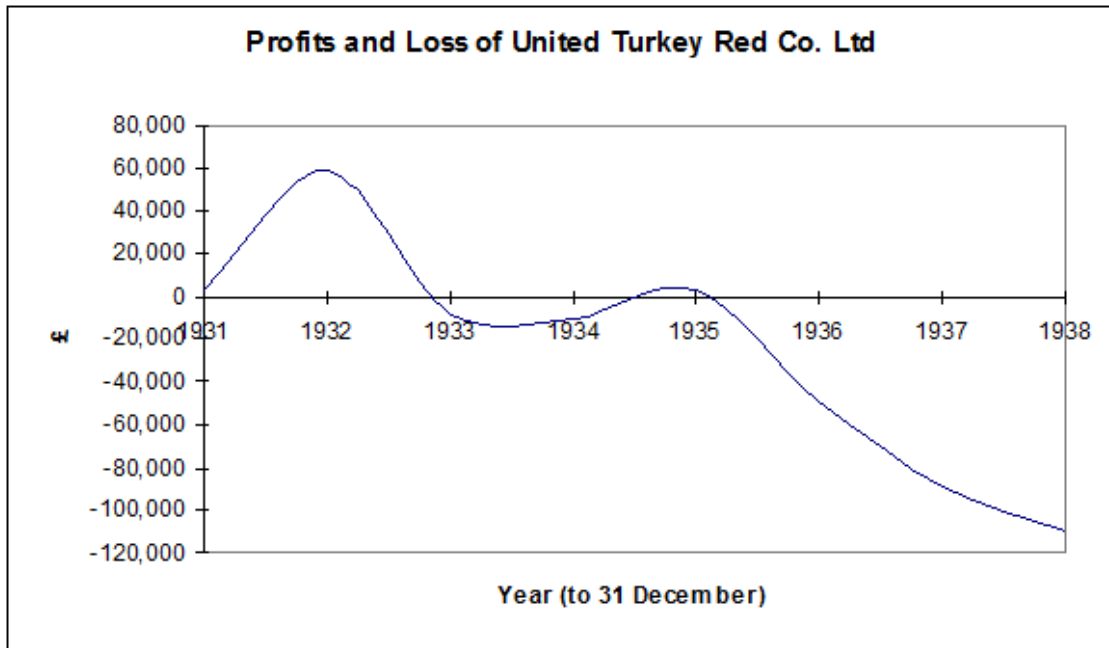
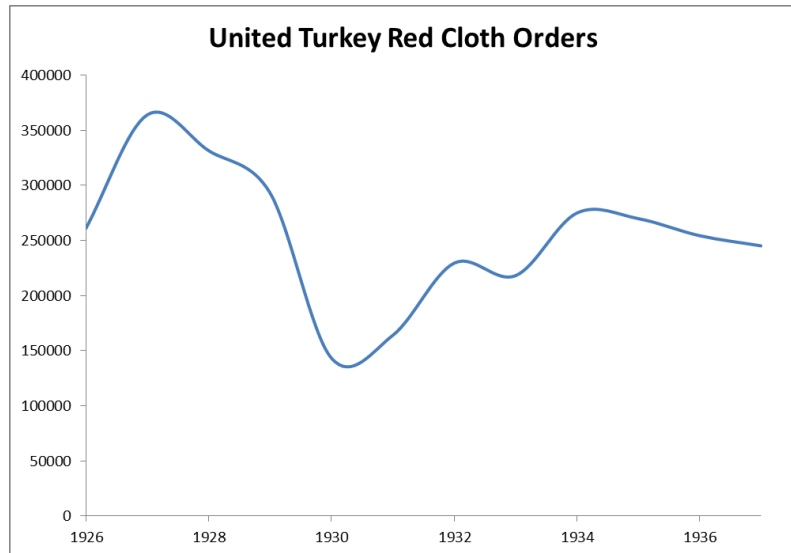
CPA Gross Trading Profit



Strategic group:

Commission-processors with specialist standard product types closely involved in network agreements/ protocols

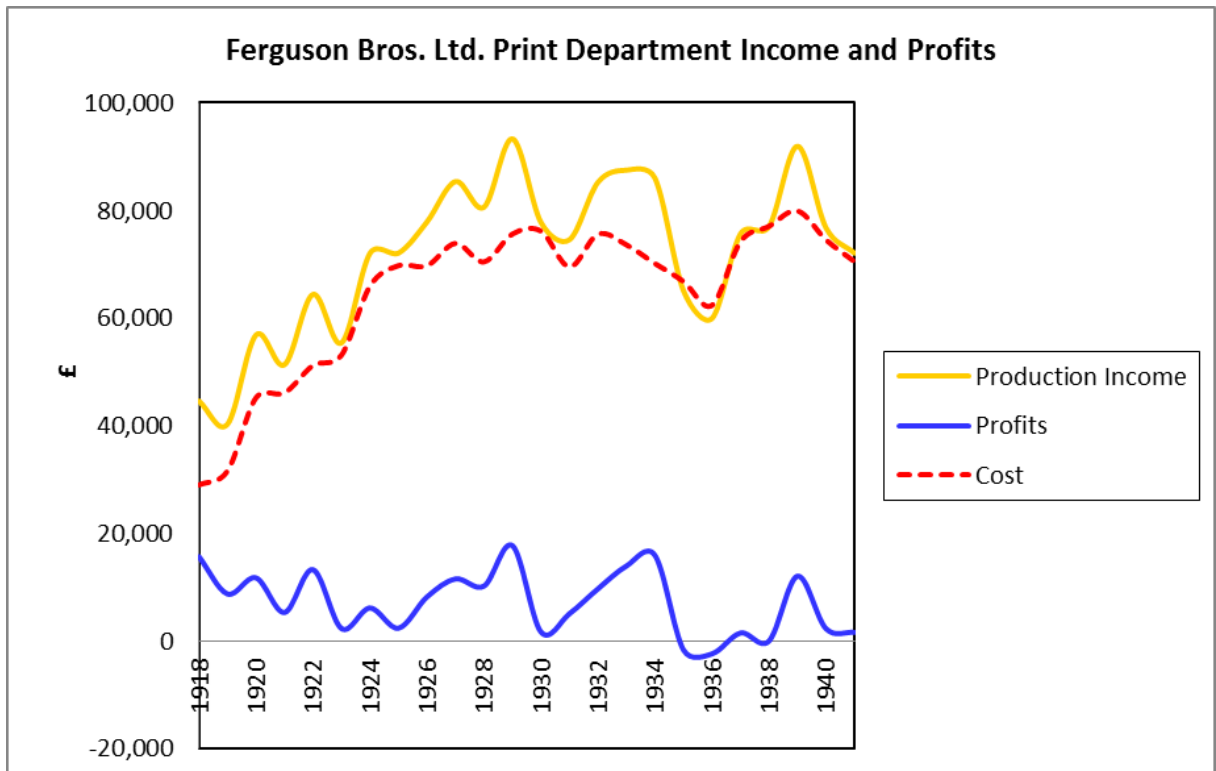
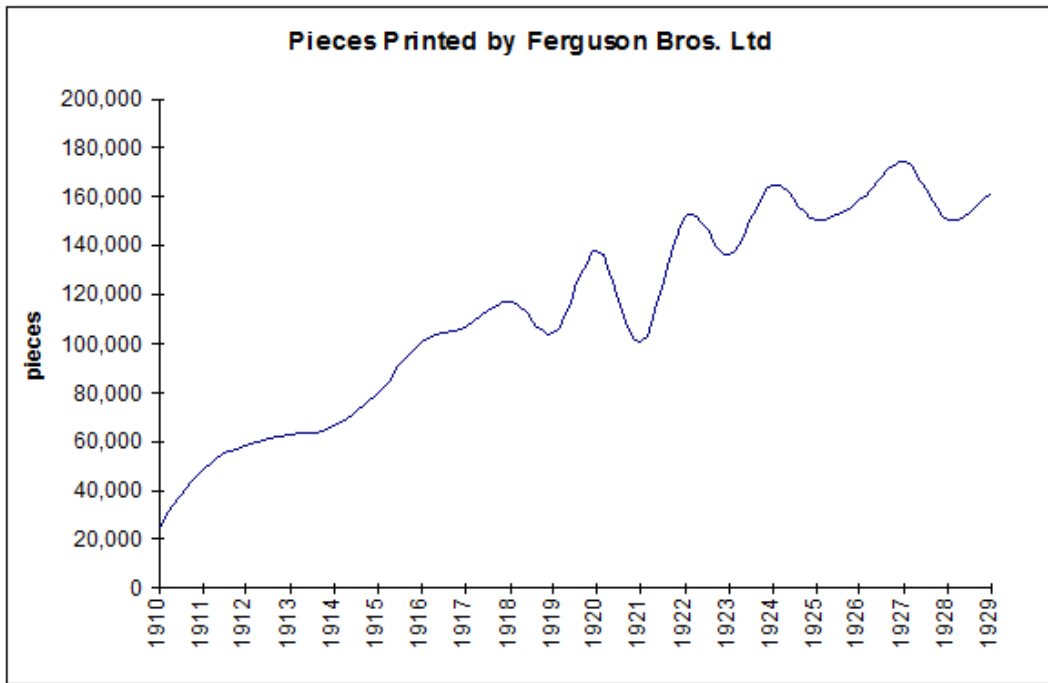
Export focused



The network-embedded firms predominantly remained in a stasis of passive commission structures rather than active marketing, focusing on monopolistic price agreements for standard products within the British industry and rationalisation of capacity, which left them open to price cutting by overseas competitors.

Strategic group:

Entrepreneurial firms independent or peripheral to networks - sales were much stronger than for competitors, but rising costs limited profits.



Family firms theory:

Chandler: owners take a more short-term approach than career managers - 'in such personally managed firms, growth was not a primary objective . . . many owners preferred current income to large-scale, long-term reinvestment in their enterprise' (1990: 292)

Chandler, Kirby, Payne: personal capitalism is less advanced than managerial capitalism: Chandlerian teleology

Kindleberger, Wiener: contributed to British industrial decline

Roca, Casson: conservative in approach, less risk taking as self-financing rather than commercial credit

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Saez, M., Colli, A. (2006): smaller family firms are more flexible due to closer personal control/ less hierarchy; not synonymous with risk aversion or lack of innovation

Colli (2006): family firms have strengths in social responsibility and commitment of owners but weakness in finance

Church, R. (1993): family firms continue to play a dominant role in many economies

Wilson, J. (1995): Chandler, Elbaum & Lazonick are simply believers in the American Way and by imposing a schema on countries with different environments they are distorting views of business evolutions

Summary

In the interwar printed textile industry in Britain:

- Entrepreneurial family firms peripheral or independent of industry networks demonstrated a more innovative approach, due to the close personal control, flexibility and sense of responsibility of founders, which was financially successful;
- family firms and managerial firms embedded in industry networks took a defensive co-operative approach that aimed to control the market and reduce production, with little long term economic effectiveness.

The Chandlerian/ Lazonick approach of creating very large vertically integrated managerial firms to benefit from economies of scale, to replace the atomistic personal capitalism structure in the cotton industry - also recommended by the British Government in 1929-30 and some industry insiders - is undermined. Independent, entrepreneurial firms developing innovative, differentiated product offerings were more effective.