

Government 1521
Bureaucratic Politics:
Government, Military,
Social and Economic Organizations

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Lecture 17: The Emergence of
the Multidivisional Corporate Form
in U.S. Economic Organization

Announcements

1. Please turn in “hard copy” of papers for grading.
2. Office hours tomorrow 3PM to 5PM.

RRs – system building

1870s-1880s: Managers versus investors

System-building: Jay Gould (Penn RR): by 1881, controlled the Kansas Pacific, Missouri Pacific, Missouri, Kansas & Texas, Wabash, Lackawanna, Central of NJ, NY&NE, and Erie (*VH*, 160).

Strategy: in order to finance security debt, need to control traffic and divert it to your own roads.

Later, Vanderbilt (as response to Gould)

Still later... Union Pacific (Gould, then Charles Francis Adams), Central Pacific, Southern Pacific (Collis Huntington), Santa Fe (William B. Strong).

RRs – System Building

Chandler: Summary Points:

- (1) 20th c. RR enterprises fixed their structures essentially in 1880s.
- (2) New system were usually the first new roads in their regions (notice importance of federal land-grants and of crowding out other roads)
- (3) Salaried career executives played critical role:
“...similar strategies led to the formation of similar systems in the sparsely settled far west, the more populous old south and urban New England. Everywhere, railroad men gave up their faith in informal alliances, lost hope in the effectiveness of more formal federations, and turned to winning their own “self-sustaining” interterritorial systems. Regional variations, reflecting economic and historical differences, had relatively little effect on the overall pattern of system-building” (VH, 163).

Different Forms of Organization

Unitary: Org divided into manufacturing, sales, marketing and finance depts.

Functional: Organize subunits (departments) along task lines [e.g., 20th c. oil companies: drilling, shipping, refining, retail depts]

Geographical: Organize among territorial lines.

Holding Companies: legal devices whereby small central offices act as portfolio managers, while each subunit is operated independently. (Similar to franchise system: e.g., McDonald's).

Multidivisional Form (MDF)

Fligstein: “a decentralized management structure.”

- Firms organized into product divisions; each division contains a unitary structure.
- Central office: long-range planning and financial allocations.

These ideal types (Weber) mask over considerable variation and recombination.

Strategy and Structure

Chandler: MDF results from strategy.

Horizontal strategy → unitary structure

Vertical strategy → functional structure

Examples: DuPont, General Motors. These become role models for other firms.

An Alternative Story: Fligstein

Power Perspective:

- A. Orgs Allocate Scarce Resources
- B. Optimum not always apparent; different actors fight over org of firm
- C. Once mfg gets routinized, key issue is sales and marketing (these have power b/c they access consumers)
- D. Prediction: "Since the MDF could be viewed as a mechanism which allows for growth through product-related and – unrelated strategies, its implementation would be favored by those who stood to gain the most from those strategies, i.e., sales and marketing, and finance personnel" (1985: 380).

Table 3. Number and Percent of Firms that Made the Transition to the Multidivisional Form at the First Time Point, by Industry

Industry		1929	1939	1948	1959	1969
Food	Total	14	16	14	8	8
	#MDF	0	2	3	5	6
	%	0.0	12.5	21.4	47.2	75.0
Mining	Total	6	2	6	4	0
	#MDF	0	0	0	1	0
	%	0.0	0.0	0.0	25.0	0
Lumber and Paper	Total	4	3	5	7	6
	#MDF	0	0	0	3	5
	%	0.0	0.0	0.0	42.9	83.3
Metals	Total	19	19	16	15	16
	#MDF	0	1	1	4	9
	%	0.0	5.3	6.3	26.7	56.3
Machines	Total	10	12	11	22	18
	#MDF	0	1	7	15	15
	%	0.0	8.3	63.6	68.2	83.3
Transport	Total	9	8	12	14	13
	#MDF	1	1	3	9	10
	%	11.1	12.5	25.0	64.3	71.7
Chemical	Total	10	12	11	13	16
	#MDF	1	2	4	10	13
	%	10.0	16.7	36.4	76.9	81.3
Petroleum	Total	19	18	21	22	20
	#MDF	0	0	0	6	16
	%	0.0	0.0	0.0	27.3	80.0
Miscellaneous	Total	26	24	25	20	23
	#MDF	0	2	5	6	13
	%	0.0	8.3	20.0	30.0	52.2
