Symposium on Harrison's "Lean and Mean"[1]

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The view that the cornerstone of the modern economy is the large firm dates back to the onset of the industrial revolution. According to the conventional wisdom, small firms do not play an important role in the economy, and their participation is expected to diminish in the future.

The post war model of economic development was dominated by the large corporation using mass production technologies in an environment of stable prices. The 1950s and 1960s saw the zenith of mass production in the United States. According to John Kenneth Galbraith (1956) there were strong reasons to believe that large firms were superior to small ones in virtually very aspect of economic performance – job generation, technological progress, finance, and productivity. By the early 1970s "cracks" had begun to appear in the structure of the manufacturing sector of some developed countries. According to Piore and Sabel (1984), the economic crisis of the 1970s resulted from the inability of firms and policy makers to maintain the conditions necessary to preserve mass-production-stability of markets. Their argument was that the present deterioration in economic performance results from the limits of the model of industrial development that is found in mass production. The central claim of the authors was that we are living through the second "industrial divide" where the conditions for economic recovery lie between international keynesianism and flexible production.

This development following the "twin oil" shocks had triggered an unexpected reappraisal of the importance of small and medium sized firm. Several lines of research have found that something happened to the centuries-old trend towards larger firms. Depending upon the measure of business size examined, the tend decelerated, ceased, or reversed itself sometimes between the late 1960s and late 1970s (Acs and Audretsch, 1993).

As we move towards the 21st Century, we are left with a divergence of opinion on the future of the giant firm (Acs, 1994). Is the relative shift away from large firms towards small enterprises evidence of the emergence of a dynamic, vital innovative entrepreneurial sector, or is it a reflection of the inability of the large incumbent corporation to prevail in the increased presence of globalization? In other words, will the conventional wisdom about the efficiency of large firms stand the test of time?

In a provocative new book, Bennett Harrison (1994) has persuasively argued that the large multinational corporation has not only managed to survive, but has actually prospered in the new global environment. How have the survivors managed to restructure themselves? Simple. The revitalization of the large corporation in the wake of the world wide economic turmoil of the 1970s and 1980s has been accomplished by investing in four basic building blocks: returning to the firms core competencies; the intense use of information technologies; forming strategic alliances; and systematic attempts to elicit more active collaboration of their workers.[2]

Harrison's book, and the debate on large and small firms is best understood from a Schumpeterian perspective. In the *Theory of*

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Economic Development (1934) first published in German in 1911, Joseph A. Schumpeter unveiled his concept of the entrepreneur against the backdrop of economic development. He draws attention to the role of the entrepreneur, who is a key figure and plays a central role in his analysis of capitalist evolution. In Schumpeter's theory the entrepreneur is the person who innovates. "Quite simply, he is the *person causa* of economic development" (Hebert and Link, 1989, 43). Schumpeter would clearly bet on the entrepreneur, and focus public policy in that direction.

Three decades after the original publication of the *Theory of Economic Development* (Schumpeter I) it is the large corporation that draws attention to Schumpeter's gloomy prospects for economic progress. The ideologically plausible capitalism, as Schumpeter himself wrote in *Capitalism, Socialism, and Democracy* (1942), contains no purely economic reason why capitalism would not have another successful run. The socialist future of Schumpeter's drama rests wholly on extraordinary factors. The large corporation, by taking over the entrepreneurial function, not only makes the entrepreneur obsolete, but undermines the sociological and ideological functions of capitalist society (Schumpeter II).

Harrison's book, and his rejoinder to the symposium, is descended from Schumpeter II. Clerly, large firms are not about to obsolete themselves. However, large firms will dampen the winds of "Creative Destruction", slowing down the rate of innovation to a crawl, reducing productivity and the rate of economic growth.[3] Harrison (like Galbraith before him) shares this deep suspicion of large firms' effects on innovation. Harrison also shares the implicit belief in the dominance of large firms on the overall economy in Schumpeter II. What's new for Harrison is the seeming paradox of *concentration without centralization* which results from modern-day networks of enterprises. Harrison's thesis is that these networks have had less diminution on corporate power than raw concentration ratios would suggest, that large corporations are running "lean and mean", but still retaining effective control over these networks.[4] Small firms are no match for these behemoths. Only government can stand up to them and promote the greater social interest.[5]

The purpose of this symposium is to evaluate the central claim by Harrison that (1) the large firm has reasserted its historical dominance, and that (2) large firms, not small firms, are the drivers of economic development. The crux of the symposium is whether, and if so to what extent, large firms are the primary engine of economic development in the industrialized nations. In order to shed some light on this question the relative importance of large and small firms in economic development is taken up directly by the authors in this symposium from a Schumpeter I perspective.

In the first essay, "A Job Generation Perspective," David S. Storey takes up the job generation issue and rightly points out that the job literature too often relies on accounting, rather than economic analysis. However, this issue of small firm entry, growth and survival is clearly focused in Schumpeter I. That is, the essential issue is not how many new jobs are created in small firms, but how many of these small firms grow into large firms. In this sense the role of Schumpeter I is the lens through which to study the question of job generation.

In the second essay, "A Technological Perspective," Steven Klepper analyzes the patenting and innovative propensities of small firms. This issue also is a direct descendent from Schumpeter I. In fact the innovative potential of small firms that have grown large have been at the heart of the revitalization of American industry from steel to computers. And as Klepper points out even if small firms do not have an innovative advantage, *there is no reason to support the cause of large firms championed by Harrison.* It is precisely the large firm that is the subject of Schumpeters lament about capitalism.

In the third essay, "A Financial Perspective," Josh Lerner examines an issue that is at the heart of Schumpeter I: The financing of new firms. For Schumpeter I the key issue was that the entrepreneurial and the financial function were separate in capitalism. In other words, innovative capitalists did not have to finance their own inventions. Lerner takes up Harrison's claim that "Silicon Valley" was not being driven by small high-technology firms.

In the fourth essay, "A Productivity Perspective," Donald Siegel analyzes the implications of Harrison's view on flexibility, and raised key issues about productivity. Harrison is not satisfied with the efforts large firms have undertaken to improve efficiency. Large firms should grow even larger to increase productivity. However, they need government help to do this. Here he would support large scale federal R&D. However, as the Europeans have found out federal R&D is just as bureaucratized as large scale corporate R&D. Moreover, does Harrison explain the tremendous improvement in manufacturing productivity in the 1980s and 1990s?

In the final essay, "A Policy Perspective," de la Mothe, Paquet, and Roy examine the policy prescriptions of "Lean and Mean". They find that, "after much clucking, *Harrison lays a very small policy egg*." It is ironic that Harrison in his attack on small and medium sized firms has found no other policy lever than a reliance on big business. The real issue is not that small firms create low paying jobs – they probably always did – it is that large firms no longer create enough high paying jobs that require relatively little education. Therefore, the central policy question posed by David S. Storey remains unanswered: "*Should the marginal dollar of public monies be spent on large, or small and medium sized firms*?"

The key early Schumpeterian issues we are still left with are the innovativeness of small firms (Acs and Audretsch, 1990); the ability of small and medium sized firms to generate high wage jobs; weather small and medium sized firms in networks can control their own destinies; and the successful entry points for useful public policy in creating jobs and fostering innovation.

Notes

[1] I would like to thank John de la Mothe, Henry W. Chesbrough, Josh Lerner, David J. Storey, and Bruce Phillips for many helpful comments.

[2] It should be pointed out that at the turn of the twentieth century according to Chandler (1990) firms that invested early in large scale production technology, national and international marketing, and management developed successful large scale operations in the 20th century.

[3] This point has been also been made by Arrow (1983), and Williamson (1975).

[4] The reduction in concentration ratios was first pointed out by Shapherd (1982).

[5] A second issue that is discussed in Lean and Mean is the concept of *industrial dualism*. Industrial dualism has polarized the population and contributed to a growing inequality among and between white-collar and blue-collar workers.

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