

CHAPTER 1

Capital Dependence, Historical Transitions, and Corporate Transformations

With the possible exception of the state, few organizations exercise more power or have more effect on individuals than the corporation. Decisions made in corporations have profound effects on the organization of work and the production and distribution of wealth and income. Further, corporations have tremendous effects on other powerful organizations including the state and quasi-state organizations such as the Federal Reserve Bank and the General Agreement on Tariffs and Trade. The corporation has achieved its current position as a powerful social actor in just over one hundred years.

My motivation to examine the modern corporation emerged, in part, from a desire to understand corporations' responses to the economic instability that emerged in the 1970s and 1980s. After my initial examination of corporate change in the contemporary period, it became apparent that responses to capitalist instability are affected by class-based politics and by institutional arrangements established during previous historical periods. As a result, the effects of capitalist instability, institutional arrangements, and social actors' motives and interests on corporate change became central themes in my analysis.

I conceptualize the corporation as a profoundly historical phenomenon and examine the micro, meso, and macro levels of the social structure to understand the emergence and development of the corporation. Managers are actively engaged in coordinating micro activities across space and time. They try to bring the activities of people in different times and places into a sequence to ensure outcomes (e.g., transforming iron ore and other raw materials into automobile fenders). Managerial activities occur at the micro level and are explicitly oriented toward and defined

by the meso (i.e., corporate) and macro (e.g., political, economic) levels. However, this process is fraught with problems. Within the inherently unstable conditions of capitalist economies, the corporation attempts to maintain equilibrium with its environment by (1) structuring the managerial process so it can manufacture products that meet market demand, and (2) stabilizing markets directly through market control or indirectly through political behavior. Two interrelated questions are central to this examination of macro level structures and processes, corporations, and micro-level behaviors. How do structures and processes shape the course of action available to social actors? How do social actors shape structures and process?

To answer these questions, I investigate transformations in the corporation form from the end of the nineteenth century to the end of the twentieth century. The analysis gives particular attention to the relationship between historical transitions and the three most significant shifts in the trajectory of the corporation (i.e., 1880s–1890s, 1920s–1930s, 1980s–1990s). I illustrate how social forces in corporations' environments affect social actors' external-oriented political behavior to restructure the institutional arrangements within which corporations are embedded; these social forces also affect social actors' internal-oriented behavior to restructure the corporate form and managerial process. The particular content and form of these changes are affected by the historically specific institutional arrangements that define the parameters and options available to social actors.

Most corporations changed to the multidivisional form during the middle decades of the twentieth century, a period of economic stability and growth. In contrast, rapid change to the holding-company form in the late nineteenth century and to the multilayered subsidiary form (for more detail, see below) in the late twentieth century occurred during periods of economic instability. The holding-company form and the multilayered subsidiary form share important advantages over the multidivisional form; they provide parent companies with more self-financing capability and make them less liable for breakdowns (e.g., financial, product safety) in their corporate entities (i.e., subsidiary corporations). Changes to the nineteenth century holding-company form and to the late twentieth century multilayered subsidiary form are associated with two of the largest merger waves in the last 110 years, which contributed to the rapid increase in size and wealth of the largest parent companies.

The Framework

In this book, I examine the relationship between historical transitions and the emergence of the modern corporation and analyze its three major transformations. The analysis begins with an investigation of the effects of changing institutional arrangements (e.g., political, economic, ideological) on the emergence of the late nineteenth-century public holding company. This investigation illustrates how various social actors (e.g., capitalists, labor, farmers, state managers) engage

in political behavior and effect *transitions*: stages along historical trajectories and radical shifts (Abbott 1997). I also examine the relationship between these macro-level historical transitions and meso-level corporate *transformations*, which may take the form of “deletion, replacement, redistribution, or addition of organizational activities” (Zammuto and Cameron 1985; Prechel 1991: 426). My concern is with those sharp departures from previous corporate forms and managerial processes and with the historical sequences that produce those shifts.

Politics played a central role in the historical transitions and corporate transformations in the United States from the late nineteenth century through the late twentieth century. In his analysis of the Progressive Era (1900–1916), Gabriel Kolko argued that political behavior emerged in response to economic conditions. Kolko defined *political capitalism* as “the utilization of political outlets to attain conditions of stability, predictability, and security—to attain rationalization—in the economy,” which included preserving the social relations essential to capitalist society (1963:3). He pointed out that although big business does not always have a coherent conception of the relationships between their economic goals and the actions necessary to achieve those goals, they exercise power to establish state policies that facilitate rationalization of the economy. According to Kolko (1963:3), *rationalization* is “the organization of the economy and the larger political and social spheres in a manner that will allow corporations to function in a predicable and secure environment permitting reasonable profits over the long run.”¹ Rationalization is not equivalent to efficiency or rational. Rationalization is a historical process that entails contradictions, irrationalities, disequilibria, and conflicts (Antonio 1979). Because capitalism is inherently unstable, its social organization is politically constructed and reconstructed. The intensity of this change varies historically as do the conflicts and contradictions that bring about the political behavior to reconstruct the social organization of capitalism in general and the corporation in particular.

Two interrelated theoretical logics are crucial to understanding the causal processes that produced the corporation and changes in it. First, the logic of capital accumulation constitutes an important causal force of corporate change because the survival of the corporation is dependent on accumulating capital. *Capital accumulation* reflects the overall financial position of the corporation; it entails the mobilization, transformation, and exploitation of inputs to increase the total capital of the corporation (Marx 1977; Sweezy 1970; Bowles and Edwards 1985; Prechel 1990:652, fn. 4). Capital accumulation is important not only because it is essential to the survival of the corporation, but also because capital-accumulation considerations constitute a crucial basis for state managers and corporate managers’ decisions. Capital accumulation requires access to markets and maintenance of an adequate *liquidity position*: cash and marketable securities less any short-term borrowing to meet operating expenses. Liquidity is necessary to ensure capital for reinvestment and to reduce corporations’ dependence on external capital. These variables (e.g., profit, liquidity) affect the financial strength of the corporation, the

value of its stock, and, ultimately, its capacity to survive. A narrow focus on profits can obscure the financial strengths and weaknesses of a corporation because state business policy (e.g., tax investment credits, depreciation allowances) provides corporations with substantial tax deductions that improve their liquidity positions, but may lower their reported profits. High liquidity facilitates corporations' capacity to accumulate capital over the long term by improving their cash flow and capacity to reinvest in technological innovations, and to merge with or acquire other corporations.

Second, corporate change is affected by the logic of power. Max Weber [1921] (1978) defined social power as the probability that actors will be able to realize their own objectives even against opposition from others. Some researchers argue that Weber's conception of behavioral power is too narrow, and call for a conception of power that draws from rational choice theory and includes a conception of how rational action produces structural power: "the ability to determine the context within which decisions are made by affecting the consequences of one alternative over another" (Roy 1997:13). There are two ways in which this dimension of power is important. It is commonly used to understand how social action affects social structure. Although I use this formulation to understand behavior at the micro level (i.e., individuals), there is a second and important dimension of structural power. The rational-action assumption in structural power—social actions that set up the context for decisions—draws attention to the presence of irrationality in historical processes. That is, an examination of structural power shows that the self-interested (i.e., rational) behavior of social actors produces social structures that are frequently contradictory and irrational over the long term. Thus, a conception of structural power—based in rational-choice assumptions—is important because it shows that social actors are only *intendedly rational*: social actions may not have rational outcomes. Historical analyses of power must be sensitive to how the exercise of power produces outcomes that are both rational and irrational. Although social actors may act rationally at a particular time and place, their actions are not equivalent to rationality in history. Rationality is historically contingent; the definition of rationality is time dependent. Also, what is rational for some social actors at one point in time may not be rational for others.

Rethinking rationalization as a historical process is important because big business does not always have a coherent conception of the relationship between their economic goals and the actions necessary to achieve those goals. Although big business frequently obtains acceptable outcomes, the resolution of class and class segment conflict may not (and often does not) produce the structure and context intended by the social actors who exercise power (Prechel 1990, 1991, 1994b). Individual rationality is bounded because social actors cannot predict the direction of capitalist development. Thus, historicizing the corporation entails developing a conceptual framework that acknowledges irrationality in historical processes. This framework explicitly acknowledges that irrationalities exist between levels of the

social structures. Whereas the logic of capital accumulation is dynamic (i.e., markets change), the logic of social control used in the corporation is static (i.e., corporations develop elaborate mechanisms to ensure standardization of social action). As a result, social structures move out of equilibrium with the market in which they are embedded.

The analysis here deviates from most studies of the corporation in four fundamental ways. First, I show that rapid organizational change does occur. Much organizational research advances inertia arguments or assumes that change occurs through diffusion on a gradual or incremental basis.² I suggest that certain historical conditions generate rapid change. A task for historical sociology is to identify the processes that contribute to rapid social change. The comparative-historical method is employed here because it is attuned to complex social processes that are affected by many variables. Explicit within this analysis is that inertia has a stabilizing effect on social structures, but unique constellations of variables at certain historical junctures change pattern-oriented action and produce historical transitions and corporate transformations.

Second, I theorize agency. Although organizational inertia can be an important source of stability, it is important to understand the basis of that stability: structures remain stable because social actors reenact those structures. Social structures are patterns of relations “continuously enacted by actors doing things with others” (Abbott 1977:99; also see Mead 1931; Weick 1969). Even during periods of stability, the agency structure relationship is crucial to understanding social process because social action reconstitutes structure. Structures provide a memory of the past (Abbott 1997). As such, social structures provide knowledge of what is required to reenact the future in such a way that it informs social actors that have interests in retaining or changing the social structure. Reenacting the past or changing the future entails the exercise of power. Each social action “reconnects some existing structures, disconnects others, and indeed creates some structures unseen before” (Abbott 1997:99). These “structures unseen before” emerge because social actors change their behavior.

The theoretical logic developed here conceptualizes change as the outcome of social action that occurs inside and outside the corporation. Rather than assuming that managers are autonomous from capitalists, the framework here suggests that “a wide degree of control over the policies of management may rest in hands outside the enterprise, by virtue of their power over credit or financing” (Weber 1978:139–140). That is, the separation of the managerial function from the ownership function is not synonymous with the separation of ownership from control (Zeitlin 1974). Although capitalists may not be actively engaged in managing the corporation, top managers remain accountable to them. Capitalists exercise their power during historical junctures when they perceive that their interests are jeopardized (e.g., after extended periods of capital accumulation constraints and declining profits). Capitalists’ mobilization focuses on two broad

strategies: (1) inside restructuring (e.g., managerial process, corporate form), and (2) outside restructuring (e.g., corporations' political, economic, and ideological institutional arrangements).

Corporations are conceptualized as collectives of social actors—with differing degrees of power—that use their resources to achieve goals and agendas. Corporations must accumulate capital to survive, and top management and its board of directors are responsible for ensuring those outcomes. Top management is allocated authority and responsibility over strategic decisions to ensure that corporations achieve stated goals. Although top managers' behaviors are affected by many variables, corporations' capital accumulation goals have priority. Further, the imperatives associated with top managements' structural position have the greatest effect on their motives and behaviors. As James and Soref (1981:2–3) put it: “social structural positions and their associated imperatives have a logical causal priority over the motivations of the individuals who are selected to fill those positions.” Structural imperatives create incentives for top management: low profit is the most consistent determinant for dismissing top managers (Zeitlin 1974; Berg and Zald 1978; James and Soref 1981). Corporations' structural imperatives produce behaviors that are affected by historically specific profit-making opportunities and constraints. These structural imperatives are independent of particular individuals occupying decision-making positions in corporations.

Third, the theoretical framework developed here examines the relationships among the micro, meso, and macro levels of analysis. The failure to bridge the gap among levels of analysis is characteristic of sociological theory in general (Coleman 1986; Collins 1988). As a result, social theory does little to elucidate key interactive relationships that constitute social structures (Giddens 1979). The corporation is an appropriate unit of analysis to articulate micro-meso-macro linkages because it affects, and is affected by, macro-level processes and social actions at the micro level. The micro-level link is important because without understanding the intricate and routine day-to-day organizational processes it is hard to understand how social structures are constructed or how organizations attempt to control individual behavior oriented toward some ultimate end (Stinchcombe 1990).

Fourth, the corporation is conceptualized as both a legal and an administrative entity. This is in contrast to most studies of the corporation that conceptualize the corporation as a managerial-administrative entity. This difference has important effects on research designs and findings. For example, in *Strategy and Structure* (1962) Alfred Chandler identified the managerial characteristics associated with the multi-divisional form (MDF). Then, he used this definition to assign a corporate form to other corporations with these characteristics (also see Rumelt 1974; Harris 1983).³ In contrast, the framework used here incorporates property rights, which define the legal and financial obligations between parent companies and their corporate entities. An examination of property rights directs researchers' attention toward the

parent company's rights over its corporate entities, the limits of its responsibilities, and how those laws define *ownership control*: the percent of ownership necessary to control a corporate entity. This formulation captures the financial and organizational feasibility of establishing alternate forms of ownership control as corporate property rights and incentives to exercise those rights change over time.

An examination of property rights draws attention to the legal basis of the relationship among corporate entities, especially between parent companies and their *subsidiary corporations*, which are separate legal entities that are partially or wholly owned and controlled by a parent company (Prechel 1997:409). There are several implications of this form of ownership control, including the financial tools available to raise capital and the amount of capital necessary to control business entities (i.e., subsidiaries versus divisions) (Prechel 1991, 1997b). Parent companies can exercise ownership control when they own more than 50 percent of a subsidiary corporations' stock. The use of subsidiaries and divisions to organize corporate assets is historically contingent and is affected by their institutional arrangements, which include regional state (e.g., New Jersey, Delaware) laws of incorporation, federal tax laws, and corporations' capacity to raise capital from internal and external capital markets.

Although capital-dependence theory elaborated here deviates from prevailing theories of organizational change, the idea that capitalist competition is historically contingent and results in social change is not new. Marx (1977) understood capitalism as an economic system that contained contradictions that produced periodic crises requiring resolution. Schumpeter's (1964) conception of "creative destruction" viewed historical variation in the form of competition as the primary mechanism through which older forms of organization were replaced by new forms. More recently, sociologists maintain that industries develop at different times, and historical conditions shape and reshape the industry structure, the exit and entry of organizations, and the adaptive structure of firms (Stinchcombe 1965; Benson 1977; Tushman and Romanelli 1985; Prechel 1991; Roy 1991, 1997).

Historical transitions and corporate transformations are effected by the interrelated logics of power and capital accumulation, which are manifested in the behavior of corporations, classes, and class segments. The corporation is a crucial social actor in the rationalization process because it is an organizational entity that provides a basis of political and economic power. Corporate actors do not simply react to the institutional arrangements (e.g., the market, an autonomous state). Rather, corporations are political actors. Corporations are organizations through which capitalists define their interests, establish political coalitions, and pursue political behaviors to advance their agenda. Corporations, however, do not always have the power to overcome crises and contradictions in the economy. Under these historical conditions, political unity emerges within the capitalist class and class segments.

Capitalist class segments are collectives of social actors that represent the divisions that exist among business segments and conform to the relationship each branch of capital has with the economy. Class segments emerge as political actors because differential rates of capital accumulation exist within the various segments of capital (Offe 1975; Poulantzas 1978; Aglietta 1979). As a consequence of their distinct location in the social process of production, class segments have specific political economic requirements and concrete interests that may be contradictory to those of other class segments (Zeitlin, Neuman, and Ratcliff 1978; Zeitlin 1980; Prechel 1990). Because the capital-accumulation process affects them differently, capitalist class segments frequently disagree on solutions to contradictions that emerge as crises. The resolution of conflict entails the exercise of power, and the outcome of power struggles are manifested in both state and corporate policies and structures. These political behaviors include attempts to define the institutional arrangements within which corporations are embedded and in which capital accumulation occurs.

Historical Transitions

In examining social change, I address a central theoretical problem of political and historical sociology: the conditions under which classes mobilize and act on their shared interest (Tilly 1981; Staples 1987; Prechel 1990: 664). I raise three questions that are related to this theoretical problem. First, what are the bases of social action? Second, if similar historical conditions emerge at different points in time, do similar interests emerge and do groups act on those interests in similar ways? Third, to what extent do historical conditions and the social structures affect political mobilization, the capacity of social actors to exercise power, and historical transitions?

To address these questions, I use comparative-historical methods. Specifically, to analyze the relationship between historical transitions and corporate transformations, I draw from the agency-structure linkages in Max Weber's comparative-historical conception of *multicausality* where organizational, legal, ideological, and economic forces are all dominant (Kalberg 1994). Economic change, by itself, does not produce change in the social organization of capitalism. Incipient legal and ideological forms must already exist (Kalberg 1994). However, an analysis of economic transitions is crucial to understanding corporate transformations. The corporation is a profit-making entity that responds to changing economic conditions, especially during crisis periods. Therefore, an examination of corporate change must examine the historical conditions that generate an "economic ethic" or an "economic form" of action.

Weber's historically informed conception of multicausality stipulates that causal forces are historically contingent. For Weber, economic, political, legal, and cultural forces constitute the broad categories that influence social action. Weber explicitly argues that patterned action-orientations may vary in intensity.⁴ The emphasis on patterned action-orientations also directs researchers' attention toward causes that are constant in one or more cases at different points in time. This

is a crucial part of the historical-comparative method. I examine whether similar causes produce *turning points*—consequential shifts that redirect a process (Abbott 1997)—in the corporate form. To identify the causal forces that produce historical transitions, researchers must first identify *trajectories*—interlocked and interdependent sequences of events—(Abbott 1997) that produce patterned action-orientations. While trajectories represent stability, turning points represent change. Identifying trajectories and turning points is essential for understanding historical sequences and identifying transitions.

I employ historical case-oriented (i.e., small n and many variables) and variable-oriented methods (i.e., few variables and a large n) to examine the historical processes that produce social change. Shortcomings of variable-oriented analysis include data limitations. Quantitative data are frequently unavailable or unreliable. Thus, historical processes are difficult to quantify and mathematize.⁵ Crucial variables are frequently not operationalized, which constrains theory-driven research. Also, the ahistorical assumptions in quantitative methods are not well suited to analyzing corporate change; they are constrained by assumptions of linearity and normality that cannot explain the complexities and disequilibria of social processes (Benson 1977; Heydebrand 1977; Isaac and Griffin 1989). In contrast, historical case-oriented methods make it possible to examine evidence about historical sequence and agency, and capture the complex social processes that produce motives, behaviors, and social structures (Abbott 1997; Ragin 1997; Rueschemeyer and Stephens 1997). The historical narrative here relies on case-oriented data and describes how linkages among levels of the social structure break down and how social actors mobilize politically to restructure their institutional and organizational arrangements.

Case-oriented studies have been criticized for their lack of generalizability. Although important, that argument obscures the contributions of case-oriented research. The importance of case-oriented research rests in its capacity to show whether the case is typical or atypical. That is, the value of a case is in whether it resembles or differs from prevailing conceptions of the empirical world, and why those resemblances or differences are theoretically important (Prechel 1994b:728). If case-oriented research identifies a deviation from prevailing theory, this is sufficient evidence in its own right to justify further investigations of the phenomena, which may include more theoretically restrictive variable-oriented analysis. Both methods are used here because case-oriented analyses “form the backbone of making institutions dynamic,” and variable-oriented analysis “allow statements about the breath of institutional impact” (Janoski, McGill, and Tinsley 1997:262).

Capital Dependence Theory

Since the nineteenth century, researchers in the political economy tradition have argued that the availability of capital affects corporate behavior. By 1867, Karl

Marx (1977) argued that the need to generate capital internally was a driving force behind capitalists' efforts to extract labor from the labor power they purchased. In the 1920s, Max Weber (1978) maintained that decisions concerning capital are defining features of the business enterprise, and that the "autonomous action" of the corporation is dependent on availability of capital, which affects its capacity to pursue opportunities in the market. By the 1960s, John Kenneth Galbraith (1967) argued that few changes have had more effect on the "character of capitalism" than those related to the "shift in power" associated with external versus internal sources of capital (also see Berle and Means 1932; Baran and Sweezy 1966). More recently, researchers suggest that the most important decisions made by managers are those involving the firm's capital structure and who controls its financing (Mintz and Schwartz 1985; Mizruchi and Stearns 1994).

There are four primary forms of financing the corporation (Cutler, Hindess, Hirst, and Hussain 1978). First, corporations obtain financing from internal sources. This capital is the difference between the revenues from the sale of products and operating costs. Second, financing is secured from the state through, for example, tax laws that vary over time (e.g., investment tax credits). Third, corporations obtain capital from debt financing that typically takes the form of bonds or loans. The fourth source of capital is stock issuances, which is a form of self-financing. Although parent companies and their subsidiary corporations can issue stocks and bonds because they are separate legal entities, there is an important difference between these forms of financing. Whereas *stocks* are the legal capital of the business unit divided into shares and are sold, *bonds* are certificates of debt that entail interest payments and must be repaid at a designated time (Rosenberg 1978). The form of financing varies historically and corporations' capacity to use these financial tools is defined by the corporate form and its institutional arrangements.

Capital-dependence theory builds on these and other social embeddedness theories to understand the relationship between social action and emergent corporate forms (Granovetter 1993). Capital-dependence theory is a special case of resource dependence. Whereas resource dependence broadly focuses on all of the resources that are internally produced or exist in the environment that affect behavior (Pfeffer and Salanik 1978), capital-dependence theory focuses on corporations' historically contingent capital-dependent relationship to the political, economic, and ideological dimensions of their institutional environments.

To overcome historically specific capital dependencies that create barriers to profit making, big business mobilizes politically to redefine state business policy. Political solutions are the outcome of the historically specific character of the economy, the state structure, the parameters of the state's formal authority, and the network of interests both inside and outside the state (e.g., alignment of classes and class segments, maintaining stable relations with foreign nation-states) (Prechel 1990). These conditions both elicit responses and define the parameters of social

actors' responses. Corporate political behavior is more pronounced when capital dependence and capital shortages constrain profit making. Under these conditions, corporations attempt to realign their internal managerial controls and external institutional arrangements.

Contingent capital-dependence theory suggests that capitalists mobilize politically in order to overcome historically specific barriers to profit making. Following this theoretical logic, I examine those social processes that emerge as contradictions among dimensions of the social structure. Resolutions of contradictions entail restructuring to ensure that the linkages between the levels of the social structure (e.g., micro, meso, macro) are organized in such a way that they facilitate profit making. Under some historical conditions capitalist class segments align their interests with other capitalists and mobilize politically to change these linkages (e.g., corporate form, state business policy). However, their political behavior is dependent on historical variations in corporations' embeddedness in their institutional environment (e.g., political, economic), and their relationship to other class segments and to the state (Prechel 1990; Akard 1992; Quadagno 1992). Conditions encompass "the structure of available alternatives as well as incentives and constraints"—intended and unintended—that result "in aggregates of individual actions or of collective decisions" (Hernes 1976: 515, 534; Prechel 1997a: 411). Although institutional arrangements (e.g., political-legal) affect corporations' capital dependence, motives, and behaviors, the specific alignment of institutional arrangements varies historically (Moore 1966), which, in turn, affects the options available to social actors. In contrast to other social actors, corporations and capitalist class segments have greater power to make their own history. The institutional arrangements that they create, however, may constrain their behavior at a future historical juncture.

Thus, understanding how corporate change occurs must include an examination of how historically specific opportunities and constraints affect decision-makers' motives, and behaviors. The examination of historical conditions aids in identifying variation in the political-legal structure, in identifying how that variation affects capitalists' capacity to redefine and legitimate the corporation, and in identifying the degree to which the logic of capital accumulation and the logic of power are intertwined. The power of one social actor resides in its structural location in the network of power relations with other social actors engaged in related activities. There are two crucial features of these social relationships: The power of one social actor resides in the dependence of other social actors; the dependence of A upon B is the basis for B's power (Galaskiewicz 1985). However, understanding how power relationships affect behavior—whether of individuals, corporations, or classes—entails identifying social actors and the conditions within which they are willing or unwilling to "risk exclusion from valued resources" (Markovsky, Willer, and Patton 1988:232; Willer 1986). This framework directs the research toward conflicts, the resolution of those conflicts, and determines how the institutional arrangements provide some social actors with power over others.

Using this theoretical framework, I seek to explain how the exercise of power affects the institutionalization and deinstitutionalization of corporate forms and managerial processes. This is in contrast to theories that emphasize isomorphism, diffusion, and inertia. These models have been criticized for focusing “on a small amount of change that goes on within political and economic institutions” (Janowski et al. 1997), and doing little to elucidate *how* corporations change their managerial processes and forms (DiMaggio 1988; Friedland and Alford 1991; Prechel 1991; Hirsch 1997; Stinchcombe 1997).

The Empirical Focus

The empirical focus of my analysis departs from previous analyses in several ways. First, I examine change during three historical periods (i.e., 1880s–1900, 1920s–1930s, 1980s–1990s). I argue that insufficient attention is given to the emergence of the late-nineteenth-century holding company and the social forces that contributed to its rise and decline (but see Roy 1997). I also show that a corporate form similar to the nineteenth-century holding company is emerging in the late twentieth century. I also compare the conditions that effected previous corporate transformation with those effecting current corporate change. Thus, my research is a sharp departure from most analyses of the business enterprise that focus on the emergence and spread of the multidivisional form (MDF).

Second, I show that in response to a range of historical contingencies, the corporation is currently undergoing a transformation to the *multilayered subsidiary form* (MLSF): “a corporation with a hierarchy of two or more levels of subsidiary corporations with a parent company at the top of the hierarchy operating as a management company” (Prechel 1991, 1994a, 1997a: 407). Although the MLSF shares some characteristics with the nineteenth-century holding company, unlike the corporate shell of the holding-company form, many contemporary parent companies with MLSFs actively engage in the financial management of their subsidiary corporations. The MLSF also shares some characteristics of the MDF. Unlike divisions in the MDF, however, subsidiaries are legally separate from the parent company. The implications of these differences are examined in chapters 9, 10, and 11.

Third, the analysis here is a sharp departure from theories that assume the corporation represents quasi markets and that transactions in them result in efficiency (Williamson 1975, 1985). These researchers assume that politics and power do not affect decisions on how to control the managerial process. Instead, they assert that the emergent conception of control is explained by efficiency criteria. Although several researchers question efficiency assumptions, little systematic evidence exists to challenge it (but see Johnson and Kaplan 1991; Prechel 1991). Elaborating on this research, I show that by the 1920s, financial controls were set up to monitor

and direct the managerial process in some of the largest industrial corporations. The historically specific form of financial control was affected by the capital-dependent and power relationships between finance capital and industrial capital. Financial control did not represent quasi markets, as efficiency arguments assert. It was unable to assess corporations' cost efficiency. In the middle decades of the twentieth century (i.e., 1930–1970s) corporations did not accurately measure their costs. Further, the formally rational controls set up by corporations created incentive structures and social actions (e.g., decisions) that undermined corporate substantive goals.

Temporality: Historicizing the Corporation

Social change—whether rapid or incremental—is irreducibly a historical question. Changes in routines, rules, and structures evolve through history-dependent processes that do not reliably or quickly reach equilibria (March and Olsen 1989). Examining historical sequences avoids over- and underestimating the effects of certain events, provides insights into the causal sequence of events, and takes into account variation of historical context. In this respect, historical methods are useful to distinguish between time-dependent and non-time-dependent effects. Although historical sequencing does not establish causation, it facilitates the identification of potential causal processes. By examining the constellations of factors (i.e., the sequence of inputs) that produce an output (e.g., state structure change, corporate-form change) the historical comparative method is sensitive to *multiple conjunctural causes*, which do not “anticipate causal uniformity across . . . cases,” but expect “different combinations of causes” to produce the same outcome” (Ragin 1997:36). That is, “different causes combine in different and sometimes contradictory ways to produce roughly similar outcomes in different settings” (Ragin 1997:36). I show that corporations began changing to similar forms in the late 1880s and in the late 1980s, and the same or similar variables effected this change (e.g., market competition, availability of capital, state structures). The focus on multiple conjunctural causes entails an examination of complex interaction effects: “the magnitude of any single cause’s impact depends on the presence or absence of other causal conditions” (Ragin 1997:37). Temporality is crucial to understanding change because the degree to which we can evaluate the effects of events depends on the degree to which we can grasp the temporal and spatial relationships that influence these changes.

Capital-dependence theory departs in three ways from evolutionary conceptions of change that assume a gradual evolution or diffusion of corporate structures. First, by incorporating a conception of temporality—time dependent variation in the degree of capital dependence—the theory recognizes the differential power of events in history and posits that all events do not have equal effects. Second, by acknowledging the temporal power of events in history, the theory moves

beyond assumptions of historical continuity and recognizes historical ruptures. Continuity assumptions entail a "continual unfolding of the same underlying communality," which misrepresent historical processes by homogenizing the differences between space and time (Isaac and Griffin 1989:876). Third, temporality suggests that historical contingencies structure the "motives and actions" of social actors as well as their "interests and opportunities for satisfying them" (Prechel 1990:665). Complex interdependencies shape the particular pathway a process follows and "the determining force of a property or variable is not constant, but contingent on the entire situation at a given time" (Abbott 1991:22). Although past choices affect future options, multiple options are available at a particular time and these options are not predetermined. Focusing on the sequence of events allows the researcher to establish agency and connect the outcome (e.g., policies, social structures) to the social actors exercising power.

To operationalize this conception of temporality, I draw from the periodization used by social structure of accumulation (SSA) theorists (Gordon, Edwards and Reich 1982). This perspective suggests that institutional arrangements weaken under certain historical conditions (e.g., extended periods of slow economic growth), which constraints investments into innovative and productive technology (Gordon 1980: 17). Drawing on long-wave theories of growth and decline (Kondratieff 1935), SSA theorists identify three distinct stages in each SSA: exploration, consolidation, and decay (Gordon et al., 1982:10–11; for a summary see Prechel 1997a:412). Whereas *decay* represents periods when institutional arrangements are incapable of ensuring a steady rate of capital accumulation, *exploration* is characterized by capitalists and state managers attempting to reestablish stable conditions for profit making. My analysis focuses on the *decay-exploration transition*: creating new institutional arrangements in response to prolonged market instability and declining profits. During decay-exploration transitions, capitalists mobilize politically and become more active in their pursuit of political solutions to economic problems. Capitalist class unity increases during these historical junctures because realigning the institutional arrangements necessary to regain stability is dependent on their collective political power (Prechel 1990). Institutionalizing *stability* entails eliminating "internecine competition and erratic fluctuations in the economy" (Kolko 1963:3) that threaten capital accumulation and a predictable rate of return on investment. Table 1.1 identifies three historical transitions and the concomitant state structures, basis of economic organization, basis of the labor and managerial processes, and corporate form.

The first decay-exploration period focuses on the formation of the modern corporation during a period of competitive capitalism (1870s–1890s). The business response to the recessions and depressions beginning in the 1870s succeeded in convincing regional state managers to provide wide-ranging property rights to

TABLE I.I Decay-Exploration Transitions: State Structure, Economic Organization, Management Form, and Corporate Form, 1870s–1990s

<i>Decay-Exploration Periods</i>	<i>Prevailing State Structure</i>	<i>Prevailing Economic Organization</i>	<i>Scientific Management Form</i>	<i>Prevailing Corporate Form</i>
1870s–1890s	Federalism: Few Federal Regulations	Competitive Capitalism	Taylorism	Holding Company
1920s–1930s	Stabilizing State: Moderate Federal Regulation and Enforcement	Oligopolistic Capitalism	Fordism	Multidivisional Form
1970s–1990	New Federalism: Reduced Federal Regulation and Enforcement	Global Capitalism	Neo-Fordism	Multilayered Subsidiary Form

business enterprises, which included limited liability. Once regional states developed business policies and enforcement structures, subsequent policies were affected by existing policies and enforcement structures defining the relationship between corporations and regional states. The public holding company emerged within these institutional arrangements.

The second decay-exploration period (1920s–1930s) is characterized by economic depression, by the movement toward oligopoly, and by state business policy that created financial disincentives for organizing corporate entities as subsidiaries. During this period, corporations began to organize their corporate entities as divisions, creating the MDF.

The third decay-exploration period is characterized by intensification of global competition (1970s–1990). In the 1970s, changing economic conditions were manifested in the corporation as high debt, capital shortages, and declining profits. Corporate restructuring strategies included mergers and acquisitions and market consolidation. During this period, the size of the largest U.S. parent companies dramatically increased (Prechel and Boies 1998a:323). These economic conditions and corporate strategies resulted in restructuring the managerial process and the corporate form (e.g., divisions as subsidiaries).

By focusing on these three periods of rapid change, I demonstrate how incompatibilities among different levels of the social structure elicit a response. I also illustrate how historical conditions (1) shape and transform state business policy, and (2) effect change in the corporate form and the managerial process. Documenting these changes entails a conception of agency and an examination of how historical conditions affect the profit-making agenda of powerful class segments, the social forces that effect change in state business policy, and how corporate structures are mediated by precise calculation, attuned—often imperfectly—to the

process of capital accumulation. Conflicts and incompatibilities between these dimensions of the social structure are catalysts for change when they undermine profit-making. Explicit in this framework is that the rationalization of corporate structures and institutional arrangements is not an abstract process that evolves over time. Rather, social change is an outcome of social actors' attempts to resolve incompatibilities, crises, and constraints on their political and economic interests.

By recognizing the importance of certain events in history and examining their effects on organizational variables across time and space, this analysis suggests that transitions in the corporation emerge from *crises*: "critical points" in corporations' histories when they "must undergo reorientation and revitalization to survive" (Benson 1977; Weitzel and Jonsson 1989; Prechel 1991:426). Meso-level organizational crises are brought on by macro-level constraints on profit-making. During the three historical junctures specified here, the response contributed to the content and form of the historical transitions and corporate transformations.

Contradictions exist among different levels of the social structure. The specific form of the contradiction, however, is affected by its structural location. My study identifies two structural locations where contradictions exist. *Micro-meso contradictions* emerge when the managerial process—which structures decision making (i.e., social action)—is incompatible with corporate structures. Micro-meso contradictions typically emerge gradually and incrementally as parts of the corporation change semi-independently of other parts. In contrast, *meso-macro contradictions* exist between the corporation and its environment. Although these contradictions also emerge gradually and incrementally, they are sometimes brought on by sudden shifts in corporations' institutional arrangements (e.g., depression). Contradiction at each level may emerge independently (table 1.2). The probability of corporate transformation (i.e., rapid change) is highest, however, when contradictions at each level occur at the same historical juncture (Prechel 1991:439). The resolution of contradictions is not an uncontested process that evolves from consensus. Rather, resolution entails the exercise of power by social actors.

Irrationality in the Rationalization Process

The Inherent Irrationality of the Micro-Meso Linkage

If managers set up control systems based on perfect information and if administrative structures had the capacity to process new information and continually re-define incentive structures, it might be possible to establish control systems capable of achieving corporations' goals over time. The designers of control systems, however, do not have access to perfect information. Moreover, they are limited by bounded rationality and do not always know whether the controls they set up have the intended effect. I examine the managerial process to show how information is translated into formally rational controls, and to determine

TABLE 1.2 Contradictions and Corporate Transformation

<i>Level of Analysis</i>	<i>Level of the Social Structure</i>	<i>Location of the Contradiction</i>	<i>Outcome</i>
Micro	Decision-Making	Micro-meso Linkage Meso-macro Linkage	Corporate Transformation
Meso	Corporate Structure		
Macro	Institutional Arrangements		

whether organizational controls produce contradictory and irrational social actions (i.e., decisions).

Central to this analysis is an examination of how information is used in the decision-making process. Max Weber maintained that rational calculation was a defining feature of the modern corporation because capitalism demands stable, strict, and intensively calculable administration. Weber argued that the demand for information and the advancement of rational calculation are historically contingent, occurring at a slower rate "in the absence of [an] objective need" (Weber 1978:106). Contemporary researchers have begun to give attention to corporate accounting and its relationship to decision making. However, their analyses are limited to corporate restructuring during the early and middle decades of the twentieth century (Chandler 1977; Johnson and Kaplan 1991; Johnson 1991; Temin 1991).

To elucidate the relationship between information and decision making, the analysis here makes the analytic distinction between capital (i.e., financial) accounting and cost accounting. This distinction is important because cost and capital accounting provide information on different phenomena. Thus, the ways in which these data are used have important effects on decision making. Inappropriate use of information derived from financial and cost accounting may increase, rather than decrease, costs.

Cost accounting is oriented toward operating costs. Cost-accounting managers (e.g., controllers) try to identify and control product costs. Calculation that takes the form of cost accounting also provides information to ensure standardization of decisions, the manufacturing process, and product quality (Prechel 1994b). In contrast to cost accounting, financial accounting provides information on corporations' financial needs. *Financial accounting* is attuned to the use and availability of capital. Financial accountants measure the financial strength of the corporation, and its capacity to finance ongoing operations and strategies from internal sources. When internal capital flow declines, financial managers seek external sources of capital.

The data derived from corporations' account-control system provide much of the information used to design the labor and managerial processes. These data were used to establish *scientific management*: controls to standardize behavior and ensure

that a minimum amount of time is spent on each operation. Data are centralized and used to separate the production process into discrete work activities. After the component parts of the production process are separated, the process is reunited in an effort to create an integrated production system with an extensive division of labor. The objective of scientific management is to create a unified mode of control. Historically, the application of scientific management progressively centralizes authority using increasingly subtle and more extensive forms of control. Despite historical differences in scientific management and its capacity to achieve outcomes, it is always oriented toward control, predictability, and product standardization.

The crucial issue is whether financial and accounting controls have their intended effect. To have the intended effect, the system of control must accomplish two things. First, it must create an incentive structure that ensures social actions (e.g., decisions) contribute to corporate-unit goals. Second, it must ensure that corporate-unit goals are compatible with the corporations' ultimate substantive goal.

The Inherent Irrationality of the Meso-Macro Linkage

If capitalism were stable and predictable, linkages among levels of the social structure would not be problematic. The market, however, is dynamic, characterized by uneven development and fluctuating demand. Moreover, the rate of change is unpredictable. Thus, an incompatibility exists between the logic of the market and the logic of the administrative structure (McNeil 1978). Corporate structures are designed to make a profit at one point in time that constitute a specific means of organizing production and an overall strategy for growth. However, those formally rational structures—which are based on property rights and bureaucratic rules—may not be conducive to profit making when market conditions change. That is, whereas corporate structures are time independent (i.e., stable over time), markets are inherently unpredictable and time dependent. Thus, corporate structures—which are designed to ensure predictability—are embedded in an economy that is vulnerable to sudden shifts (e.g., recessions, depressions, globalization). As a result, incompatibilities emerge between markets and corporate structures.

However, corporations are not totally constrained by their institutional arrangements. The corporation is a power holder in its own right, and attempts to create institutional arrangements that facilitate profit making. Through coordinated political activity, large and powerful corporations pressure state managers to define business policies. Core industries⁶ and class segments are particularly influential because they are the most politically unified. Moreover, they have a high degree of legitimacy; elected and appointed state managers view them as important to ensure stable economic growth because they generate a large proportion of the gross national product (O'Connor 1973; Offe 1975; Jessop 1982).

Still, this process is fraught with problems. Whereas the political-legal system that defines the relationship between the corporation and the state is relatively static, the economy may undergo rapid and unanticipated changes. During these historical junctures, the state's institutional arrangements may be incompatible with economic growth. Also, state business policy is affected by the state's own goals and agenda, which are sometimes incompatible. Proposals to establish the conditions for domestic economic growth may conflict with the state's agenda to maintain stable relations with other nation-states. These incompatibilities place limits on policy initiatives (e.g., protectionism) acceptable to domestic classes and class segments.

Thus, the responses to economic crisis are shaped by the historically specific political and economic context, the state's competing agenda, and the power of competing classes and subclass and class segments. Historical variation in capital accumulation structures the interests, motives, and actions of competing groups and the opportunities for satisfying their interests. State structures become the product of past policies that congeal and develop a network of interests inside and outside the state, which shapes the options and alternatives available (Beetham 1987; Prechel 1990). These structures affect current policy outcomes by aligning competing interests and creating consequences for policy implementation.

Thus, for legal and sociological reasons, the state is conceptualized as a complex organization. The relationships among the various supra-units in the state (i.e., judicial, executive, legislative) are defined by a single legal document (e.g., the Constitution). The various supra-units within the state exist in relationship to one another; the functions, goals, and agenda of the executive, judicial, and legislative branches have meaning in relationship to each other. Similarly, subunits (e.g., Federal Trade Commission) within the supra-units have meaning because of their relationship to the supra-units to which they are accountable (e.g., executive branch).

Summary

The conceptual framework here suggests that social actors have choices, but their choices are constrained by the historically specific form of social embeddedness within which decisions are made. When the social structure constrains decisions so that an adequate rate of capital accumulation cannot be maintained, an "economic ethic" emerges that entails both politically and economically driven social action to redefine the managerial process, corporate form, and institutional arrangements.

Although crises result from contradictions and produce changes in the social structure, historical transitions are not disconnected from the past. There is a continuity to history because decision makers are affected by existing structures. Understanding crises and their resolution requires an analysis of historical trajec-

tories to determine how crises are shaped. Just as historical events create new opportunities and constraints for decision making, the struggle to define the future takes place within a social structure that provides a memory of the past. This social structure defines the opportunities and constraints available to the corporation, which is a complex structure in the process of change whose essence is control attuned to profit making. The ideology of scientific management is a central component of the control structure; it provides a memory of the past through which problems and their solutions are understood and resolved. This ideology emphasizes rational calculation, which transforms information into bureaucratic and technical controls at the point of production.

The theory and method elaborated here conceptualizes the corporation as a profoundly historical phenomenon.⁷ Managers are actively engaged in coordinating micro activities across space and time. They try to bring the activities of people in different times and places into a sequence to ensure outcomes. Managerial activities occur at the micro level, but are explicitly oriented toward and defined by the meso and macro levels. Within the inherently unstable conditions of capitalist economies, the corporation attempts to maintain equilibrium with its environment by (1) structuring the mode of control so it can manufacture products that meet market demand, and (2) stabilizing markets directly through market control or indirectly through political behavior. The following chapters examine the linkages between large-scale structures and processes and micro-level behaviors. Two interrelated questions are central to this inquiry. How do structures and processes shape the course of action available to social actors? How do social actors shape structures and process?