

# Understanding Real World Organizations

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TSE M1 – Semester 1

October 2019

Paul Seabright

Week 5: What's Special About Firms (II)?

# Three legal ideas that define the modern corporation

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- Legal personhood – the concept goes back at least to Roman times
- Tradable shares - we have evidence of this from around 1250 (Bazacle in Toulouse)
- Limited liability – consolidated by UK Companies Acts of the 19<sup>th</sup> century and rapidly copied in other jurisdictions



# The prehistory of the modern firm

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- Families, Gangs, Armies, Traders
  - Temples, Kingdoms, Imperial works
  - Roman *societates*
  - Medieval guilds
  - The first shareholding enterprises
  - Chartered trading companies
  - Royal manufactures
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# The history of the modern firm (I)

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- Proto-industrialisation
  - The industrial revolution in Europe
  - The invention of the limited liability joint-stock company (JSC Acts of 1844, 1856, Companies Act of 1862)
  - The large American firm in the 20<sup>th</sup> century
  - The outsourcing revolution from Toyota to tech support
  - Non-joint-stock firms: cooperatives and partnerships
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# The history of the modern firm (II)

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- First industrial revolution (steam, textile machinery, steel) favored size because
  - Raised returns to precision engineering
  - Allowed energy efficiency of large machines to be harnessed
- Second industrial revolution (electricity, telephones, automobiles) more ambiguous because
  - Freed firms from need to produce close to the customer
  - Also diminished need to produce close to suppliers or rivals



# The history of the modern firm (III)

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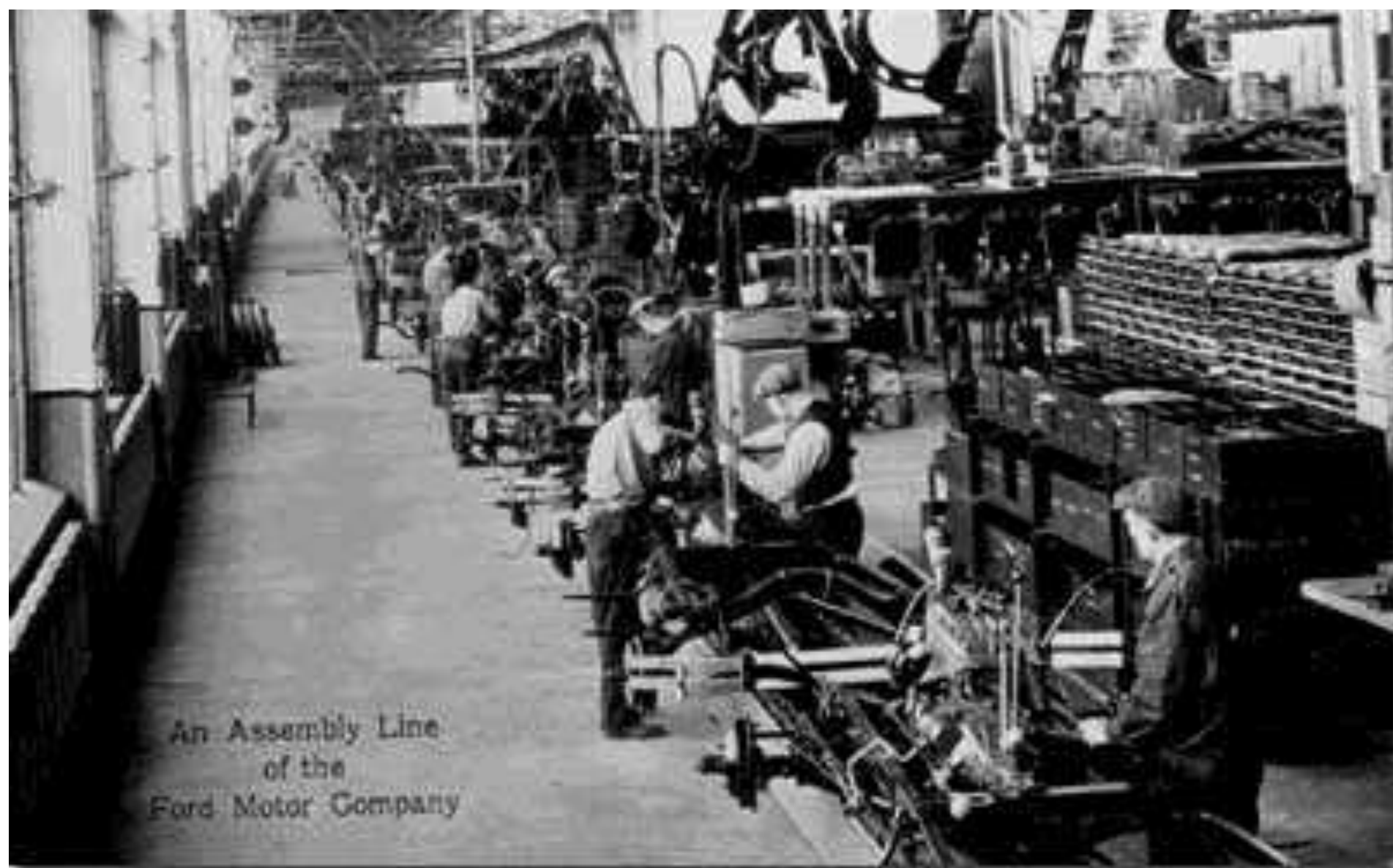
- Third industrial revolution (IT, internet) is ambiguous again – the firm's boundaries are becoming more fluid in any event
  - The trucking industry in the early 2000s
  - Platforms and Uberisation



# Communication and the modern corporation

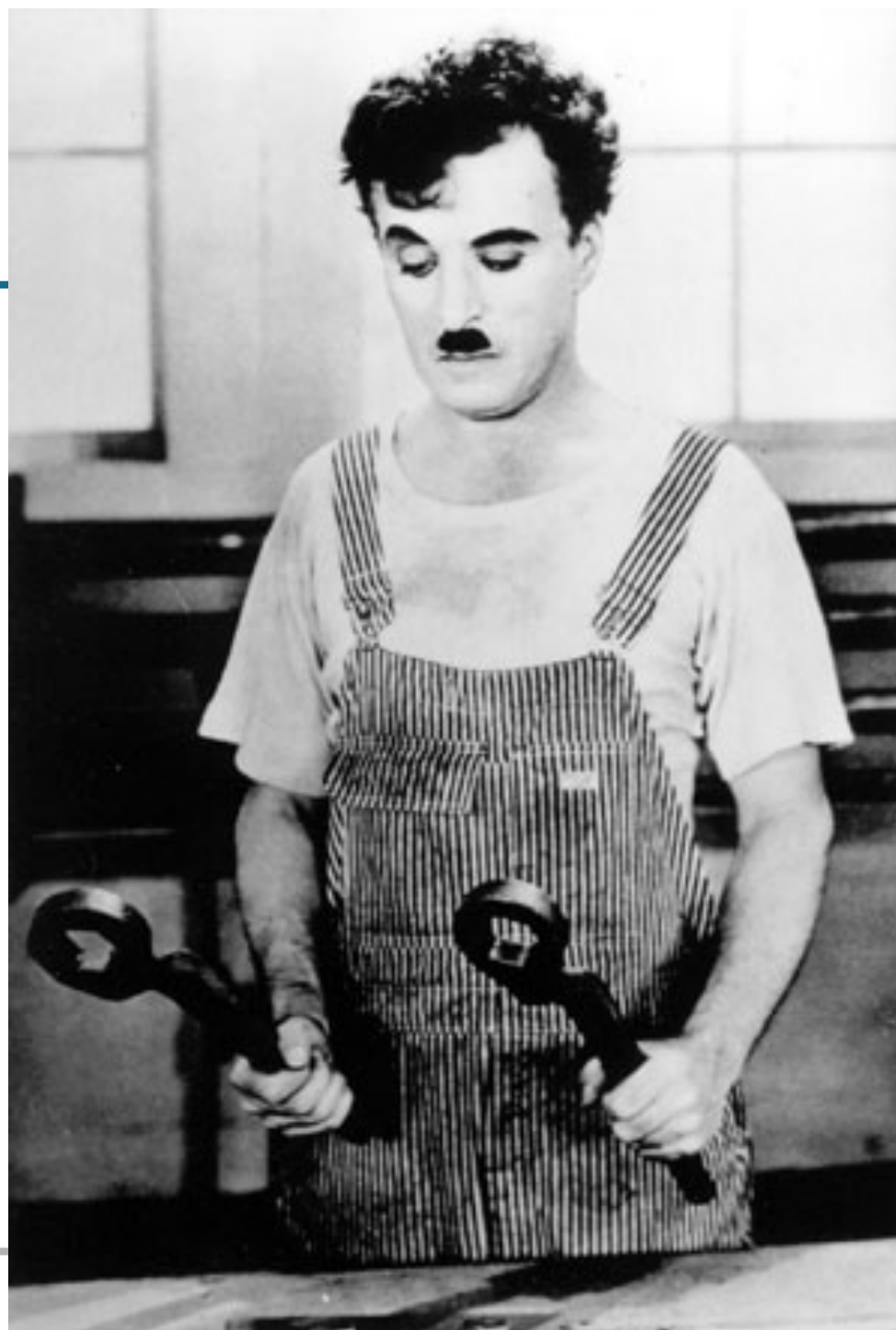
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- The Ford production line depended on specialization and training but not on communication
  - General Motors overtook Ford by understanding the problem of communication and by learning to prioritize (through anti-professionalism in some sense)
  - Toyota caught up on General Motors by understanding the problem of credibility
  - The IT revolution is reshaping the corporation by bundling competences that depend on mutual credibility *and* communication (examples: IBM, the trucking industry)
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An Assembly Line  
of the  
Ford Motor Company





# Communication and the modern corporation

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# Values and the modern corporation (I)

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- Why do promotion systems exist?
  - A thought experiment: is there anything that a firm cannot in principle, outsource?
  - Examples of value transmission:
    - Villeneuve, Arkwright's Factory, Pullman, Dearborn
    - The Melting Pot in Dearborn, Michigan
    - Armies, fighting units, bonding weekends
    - Tetrapak, Fukuyama on Japanese family values
    - The micromultinational
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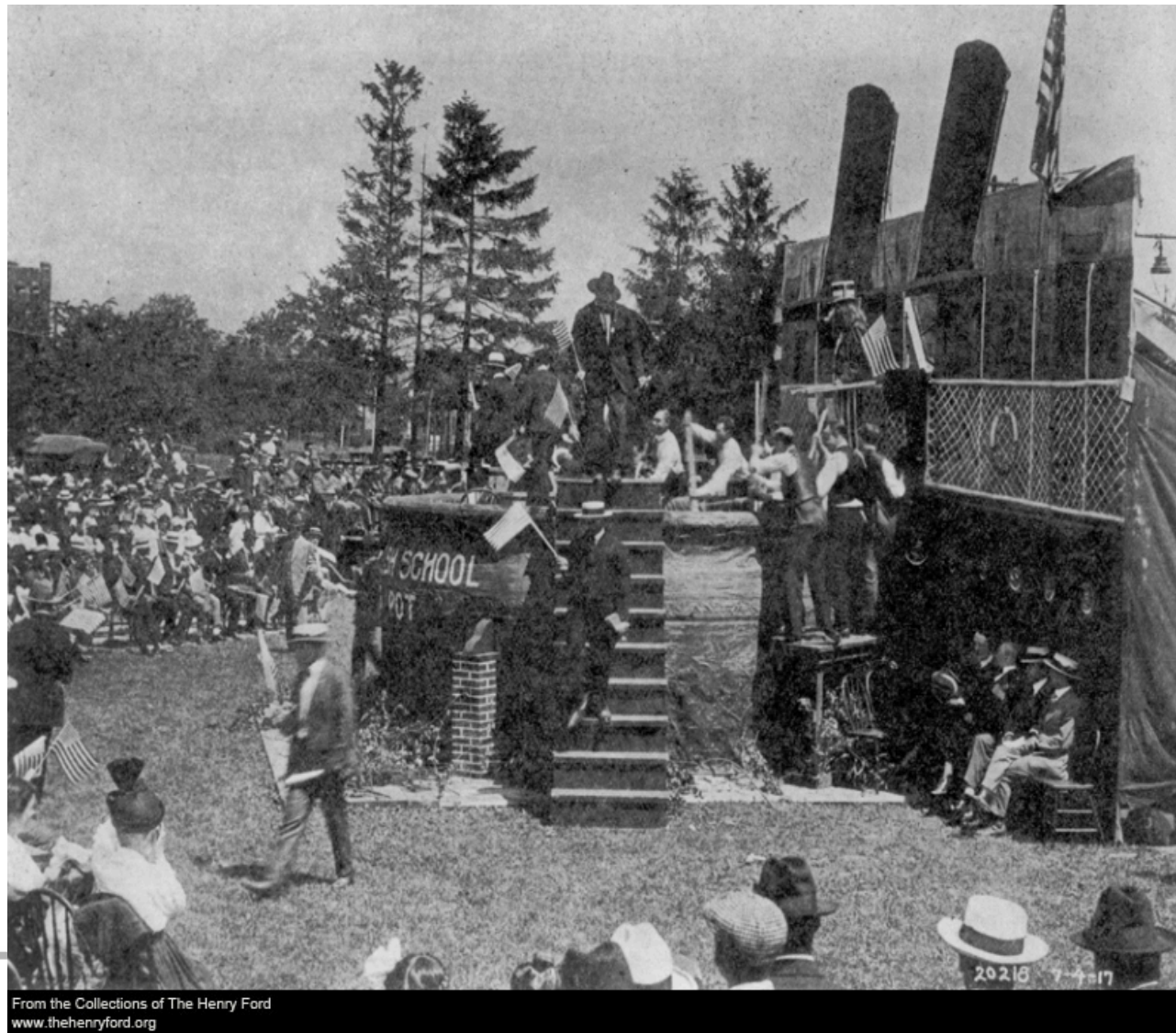
# The Ford Sociological Department

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- In order to manage and control such a large and diverse workforce, John R. Lee, Head of Personnel, created the Sociological Department in 1914. The Sociological Department established a system of rules and codes of behavior for Ford employees that they had to meet, in order to qualify for the \$5 day pay rate. The Sociological Department monitored employees at home, as well as on the job. Investigators made unannounced visits to employee's homes and evaluated the cleanliness of the home, noted if the family had renters, checked with school attendance offices to determine if children were attending school and monitored bank records to verify that employees made regular deposits. Sociological Department investigators also assisted worker's families by teaching wives about home care, cooking and hygiene. (<http://www.thehenryford.org/research/englishSchool.aspx>)
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# The Melting Pot at the Ford Motor Company, 1917



From the Collections of The Henry Ford  
[www.thehenryford.org](http://www.thehenryford.org)



# Values and the modern corporation (II)

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- Modern corporations have to balance:
    - the needs of an ultra-modern set of production technologies
    - A pre-modern (indeed prehistoric) set of psychological capacities in their workers and customers
  - Some key features of this psychology
    - Limited attention, especially of working memory
    - Strong reciprocity
    - Tension between status-seeking and egalitarianism
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# Conclusions

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- The modern firm has grown out of a history of evolving non-market means of managing economic transactions, but it has taken a very particular legal form
  - This evolution is the result both of technological change and institutional innovation
  - It's important therefore to pose the question why the institutional innovations have been necessary, and why firms continue to exist at all in a world of rapid communication between individuals
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