



**Konosuke Odaka, Minoru Sawai.** *Small Firms, Large Concerns: The Development of Small Business in Comparative Perspective.* Oxford and New York: Oxford University Press, 1999. xiii + 314. \$70.00 (cloth), ISBN 978-0-19-829379-8.



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The last quarter of the twentieth century has witnessed a multitude of tectonic developments in business, industry, and the economy. These included a wave of mergers and acquisitions, technological change, the deregulation of business, the emergence of global financial markets, a shift from mass production to flexible manufacturing, the emergence of the internet as a major business tool, and a reassessment of the role of small firms.

The reassessment of the role of small firms was stimulated by three events that transpired over the last twenty-five years. After decades of relative decline, small firms were seen as innovators, creators of new jobs, and offering flexible modes of organization compared to outdated forms of mass production. The re-emergence of small firms in an era of globalization and rapid technological change led to many questions and concerns about the role of small firms in industrial economics. This book takes the long view to examine the changing role of small firms in industrial economies, the relationship between small and large firms and the management style of small firms.

The book is organized into three parts. Part I examines North America. Part II looks at Europe including the United Kingdom, Germany, France and Italy. The third part looks at Japan in much greater detail than we are

accustomed to seeing.

In Chapter One, Philip Scranton takes up some familiar themes, purporting to expand the object of research concerning small business beyond manufacturing, embracing a wider choice of topics such as entrepreneurship, and the role of minorities. Several industries are examined including retailing, doctors and lawyers, and services. It is important to remember that in most industries outside of manufacturing most establishments were much smaller than in manufacturing and therefore the issues were different. This becomes important especially in the last decade of the twentieth century as the service sector becomes the primary creator of jobs.

The book starts out with a familiar theme. Before the emergence of mass production and Taylorist work organization most firms were small. So in some sense it is the establishment and growth of large business that is significant. Starting with the growth of trusts in the late nineteenth century, most of the twentieth century has been characterized by the growth of large and giant corporations. Witness the emergence of U. S. Steel, Dupont, General Motors, Ford, IBM, Exxon, Merck, General Electric and so on. Similar trends can be found in most industrialized countries. It is against this legacy that the current book tries to make sense out of the continuing persistence of small firms. In this development small firms

were viewed as inefficient, socially less desirable because of lower wages, and less mechanized techniques of production.

As Mansel Blackford makes clear in Chapter Two, the relationship between large and small firms is a complex one. In the United States there is a strong public policy infrastructure and a strong political sentiment for the importance of small firms in maintaining social values, democratic institutions and economic vitality. It is impossible to understand the relationship between small and large firms without taking this value system into consideration.

In Chapter Three, Kris Inwood looks at the Canadian experience in 1871 with the goal of uncovering the characteristics of the Canadian experience. The purpose of this chapter is to look at Canada on the eve of industrialization. This carefully written chapter lays out the origins of an industrial structure that is different from most other countries. Here it is not a populist agenda that is driving the industrial landscape but perhaps the role of family business, unpaid labor and small scale production.

Part II brings together the experiences of four European countries with different traditions. In France and the United Kingdom small firms have played a much less important role than in Germany and Italy.

In Chapter Five, C.F. Pratten notes that the United Kingdom was the home of the industrial revolution. However, over the years the small firm sector had declined and has not been an important part of the economy in the twentieth century. And Chapter Six, by Michel Lescuré, explores reasons for the difficulties that French small-and-medium enterprises (SMEs) have faced in the twentieth century. The reasons are changing consumer demand, challenges made by big corporations and by state policies, the evolution of the financial system and the overall decline of the local production system. In Germany and Italy the picture is quite different. In Germany, the small firm sector occupies a central role in the economy. As pointed out by Ulrich Wengenroth, this tradition grew out of two pre-industrial traditions, the craft guilds in the cities and the putting out system in the rural areas. The term-Mittelstand-literally middle-estate, has a strong corporatist overtone. Mittelstand has always been a defensive concept, very unlike the recent optimism for highly innovative small business in the United States.

In Chapter Seven, Aurelio Alaimo presents a historical study of Italian institutions. While there has been enough written to fill a large warehouse on the industrial

development of England, Italian historians have shown a clear preference for the study of the pre-industrial economy. Industrialization in Italy was viewed as just a special case of latent development. This is now changing with a new generation of historian playing close attention to Italian industrial development. These studies are summarized and may lead to important contributions regarding the industrial structure in Europe and comparisons internationally.

The last four chapters (Part III) examine the role of SMEs in Japan. In Chapter Eight Johzen Takeuchi examines the historical origins of the SME sector. This is important because while some identify Japanese success in the last quarter of the twentieth century with the growth of giant corporations, Japan has one of the largest concentrations of SMEs in the manufacturing sector. A heated debate has existed in Japan for years about the relative contribution of SMEs to economic growth. This chapter examines the background of industrialization using a variety of factors including market conditions and skill formation.

Chapter Nine, by Takashi Abe, examines the developments of the putting out system in modern Japan. In Chapter Ten, Minoru Sawai examines the role of technical education and public research institutes in the development of SMEs in Osaka between in the inter war period. Osaka continued to be one of the largest industrial centers in Japan and a virtual kingdom for SMEs. This chapter draws attention to the importance of technical education in the development of the SME sector. The last chapter, by Konosuke Odaka, examines the policies used to promote SMEs in Japan after 1956. The chapter considers the programs to fund SMEs as a part of Japanese industrial policy. How to evaluate this program and understand its success in the Japanese auto parts industry is presented.

This book has taken us through an interesting and detailed history of the role of SMEs in industrial and social organization. The focus has been on the role of SMEs in economic growth, the relationship between large and small firms and small business management. What we learn from this book is that the development of market structure is a rich and complex process that has deep roots in civilized society.

If one were to be critical, one might have wished for more international comparison between countries, or at least some commonalities drawn out. An obvious subject would be Japan and Germany, where in both cases small firms have deep roots in the institutions that are

pre industrial, and in both countries SMEs are perceived to have contributed to industrial development and economic growth in the twentieth century. Canada and Britain offer a similar possibility for different reasons.

There is, however, a deeper and more troubling issue that has been missed by the authors. After examined two hundred years of SME history how can one fail to see that SMEs play an important dynamic role in economic development? This point is surely evident when one thinks about the industrial revolution in England, the rise of giant firms in the United States and the .com revolution currently underway.

What is important about small firms is not how they are managed, or what their relationship is to large firms,

but how they are born and how they grow into large firms. In other words, small firms are important not so much because of their job creating prowess, or their organizational flexibility, but because of their ability to innovate and affect industry structure. Surely this is the story that future historians will tell when they write the business history of the United States at the turn of the millennium.

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