Managers, Institutions and Growth

Business History as an Approach to industrial History

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Aim and Scope

Recent debate on the role of institutions in economic performance has been greatly stimulated by the work of Douglass C. North. In 1971, he and Lance Davis jointly published Institutional Change and American Economic Growth, in 1973 North and Robert Paul Thomas launched The Rise of the Western World and in 1990 North published Institutions, Institutional Change and Economic Performance. Much earlier, at the turn of the century, the lack of institutions in neoclassical economic theory was criticised by German scholars such as Gustav Schmoller and by Americans such as Thorstein Veblen.

Unlike their predecessors, who wanted to substitute institutional for neoclassical economic theory, current American scholars wish to integrate institutions and institutional change into neoclassical economic theory. According to North this calls for a new theory, where institutions form “the rules of the game” (Por Veblen institutions were organisations). North elaborates:

Institutional constraints . . are the framework within which human interaction takes place. They are perfectly analogous to the rules of the game in a competitive team sport. That is, they consist of formal written rules as well as typically unwritten codes of conduct... ³

¹ This article is a revised version of an essay published in Mila Davids, Ferry de Goey & Dirk de Wit (eds), Proceedings of the Conference on Business History October 24 and 25, 1994. Centre of Business History (CBG), Rotterdam. The Netherlands. 1995. As always I have profited by comments. This time my special thanks go to professor Anthony Slaven, University of Glasgow, who was my commentator at the conference in Rotterdam, and professor Lars Sandberg, Ohio State State University, who integrated his comments in the proofreading of my English. For proofreading this revised version I have – as so often before – the pleasure to thank fil. lic. Lynn Karlsson.


³ Ibid., p.4
In a theory of institutions North finds it necessary to separate the rules "from the strategy of the players"\(^4\), which in turn calls for analyses of "individual choices"\(^5\) and opens up the need of connecting microlevel economic activity with the macrolevel incentives provided by the institutional framework. \(^6\)

The necessity to bridge the gap between macro and micro thus becomes as obvious as it is problematic. I will in the following argue that in empirical research a business history perspective might be an answer to the problem identified, my argument being based on my research on industrialisation in Sweden.

Industrialisation has transformed society. New forms of transport and education, urbanisation, the birth of a working class and rising standards of living are all part and parcel of this transformation. This macrolevel process has its basis on the microlevel. Industrialisation has taken shape in an endless number of workplaces scattered through out the economy. All these workplaces embodied the trends and characteristics of their time and place. Thus I believe that a deeper knowledge of any actual firm participating in such an expansion will deepen our understanding of economic growth. From this perspective, I have used business history as an approach to industrial history. I see economic development on the macrolevel as the consequence of an interchange between actual finns on the one hand and exogenous factors in the shape of institutional setting, technology and markets — all embraced by the attitudes of their time and place — on the other hand (see figure 1). The system is operated by actors.\(^7\)

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\(^{4}\) Ibid., pp. 4-5

\(^{5}\) Ibid., p. 5.

\(^{6}\) Ibid., p. 112

Figure 1

**Links between Different Levels of Economy.**

The whole setting is found within a sphere, shaped by prevailing social attitudes.

N.B. Arrows have been drawn for emphasis only. The lack of an arrow between, for example, technology and markets does not mean that interplay is missing.

Analysing strategies requires analysing the activities of individual actors (in this case primarily managers) or to use North’s metaphor: players. Do they or do they not respond to processes of change in their environment — in institutional settings, in technology or on markets — and if so, in what way and to which effect? My choice of an actor-oriented approach has its theoretical roots in Fredrich Hayek’s
belief in the crucial role of personal action’ and in Joseph Schumpeter’s application of this belief.

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To sum up, I want to argue that the history of firms, analysed within a given framework, opens up unique possibilities to capture the forces behind change; possibilities that might make business history a valuable tool in industrial history and deepen our understanding of economic development on the macrolevel. Arguments for this point of view will in the following be taken from some case studies in my analysis of industrialisation in Uppsala — a Swedish town just north of Stockholm — and from the approach formulated by North. I will highlight the relationship between his theory and these cases focusing on the interplay shown in figure 1 above.

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9 Joseph A. Schumpeter, *The Theory of Economic Development*. Cambridge, Mass. 1934. In Schumpeter’s theory of business cycles, the entrepreneur is the instigator of economic growth. His entrepreneur does not hold any particular position nor does he follow any particular profession, but he performs a particular function. He perceives new ways of combining the means of production, new combinations that constitute progress. Identifying the entrepreneur thus means finding the key to growth.
Performance in Practice

Choice of Cases

In Sweden, *industrialisation* is a story of the late 19th century. At the threshold of World War One, Sweden can be seen as an industrial economy. The value of industrial production exceeded that of agrarian production.

A period of proto-industrialisation was in Sweden followed by the expansion of sectors based on Swedish raw materials. In the 1850’s, saw-milling took an important step forward. Rising demand for building materials, not least from England, initiated this expansion. The steam sawmill was introduced to Swedish production. The 1870’s meant expansion primarily in iron and steel. The production of steel by the Bessemer process had in Sweden become an industrial process during the 1850’s.

In the 1890’s, growth in the traditional sectors was supplemented by industrial growth in other directions. Demand was now reinforced by the growth of domestic markets. Pulp and paper joined planks and boards as exports based on Swedish forests. A Swedish engineering sector evolved out of the iron industry. In some cases it was based on Swedish innovations and patents: Gustaf de Laval’s separator and steam turbin, Jonas Wenström’s three-phase motor, Gustaf Dalén’s acetylenas unit and Sven Wingquist’s ball bearings. Consumption goods were produced in new factories.

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10 The following story of industrialisation is based on research done by the author and – in another context – published in Swedish in *Industriell utveckling och demokratisering – Uppsala stads historia V*. Uppsala 1984. References to Swedish primary sources that are the basis for this book or to the book itself are not given.

11 The number of workers in industry did not outnumber the number of workers in farming until the early 1930s, however.
Industry followed two main lines of expansion. New processes permitted the mass production of traditional goods; the tailor, as well as the miller and the smith, became industrial workers. In this sector, I will study the industrialisation of shoemaking; my case studies will be the production of shoes by Sven Anders Hägg, Johan Ekholm and Lars-Erik Larsson. In addition, new products became the bases for new industries, not only in engineering but also in chemical production. My case study along this line will be Henrik Gahns AB of Uppsala, originally a firm producing antiseptics and preservatives.

My cases mirror economic growth. For decades to come shoe making, as well as the production of chemical products, were to be the basis for industrial production in two of the largest firms in Uppsala. These firms still existed in the post World War Two period. In their establishment and early expansion they had been part of the process of Swedish industrialisation. The history of shoemaking and of chemical manufacturing in Uppsala is a story of industrialisation in Sweden. These case studies embody trends and characteristics of their time and place. Industrial expansion in these cases — as with any other cases of industrial success — is the consequence of strategies chosen by actors producing growth and development within the late 19th century Swedish economy.

From Craftsmanship to Massproduction

The Transformation of Shoe-making: Institutional Setting, Technology and Markets

In the second half of the 19th century, shoemaking in Sweden was no longer a guild monopoly. Freedom of trade (i.e. the abolition of the old system of economic regulation) occurred in two stages, in 1846 and 1864. The guild system was abolished on the first occasion. At about the same time, in 1848, new legislation legalised companies (aktiebolag/AB) with limited liability for shareholders. Commercial banks were launched. The most successful of them all, Stockholms Enskilda Bank, the Wallenberg bank, was founded in 1856. The financing of production thus was facilitated. In addition Swedish patent law was
revised in 1856, in 1882 and in 1892, thereby increasing the protection of innovations. A new government department (Kungl. Patent- och registreringsverket) dealing with patents was established in 1892.

The new institutional setting which created new opportunities for selling outside local markets gave rise to large workshops producing shoes as stock goods to be sold on distant markets. These workshops were a complement, but also a threat, to the old local producers making shoes to order. The new shoes were sold by travelling salesmen as well as in special shops.

Soon, new shoe making competition emerged from factories using new and superior technology. The need for military boots during the American civil war had induced innovations in shoe-making. Colonel Gordon McKay developed new machines and successfully introduced them not least through a new system of leasing. Mechanisation was introduced into Swedish shoe-making in two waves. By the 1870s, sewing-machines had spread among craftsmen and special machines to bind the uppers to the sole were introduced. In the 1890s even more complicated machinery was imported. The new machinery gave rise to mass production. Using modern 1850s technology, a craftsman in America had to work 15 hours and 30 minutes to make a pair of medium quality male shoes. Fifty years later the same task took 1 hour and 42 minutes.

The first Swedish producer to open a factory for binding was Herman Meeths in Stockholm in 1873. In that same year Sweden’s first important shoemaking factory was established. A. F. Carlsson in the southern town of Vänersborg converted from craftmanship to massproduction.

In the period before World War One population growth, urbanisation and a rising standard of living meant a new and rising demand for consumption goods. New technology, resulting in cheaper goods and falling prices added to the growth of demand. The lower classes became consumers of store-bought shoes, and the upper classes increasingly chose different shoes for different occasions. Swedish shoe production may be estimated at about 800 000 pairs in 1870 and about 10 000 000 pairs in 1910. In the latter year, two pairs of shoes were made
in Sweden for each inhabitant. Starting 1897, foreign competition faded away as a result of heavy import duties.

Three Cases in Uppsala

In the 1850s, Sven Anders Hägg was the leading master shoemaker in Uppsala. He employed 10 journeymen and 2 apprentices in his workshop. Hägg was a highly respected burgher. He held positions of trust in local affairs. In 1862 he was elected a member of the newly created local council. In 1910 Lars Erik Larsson was the dominant shoemaker in Uppsala. Larsson had 206 employees in his shoemaking factory, the largest workplace in Uppsala. Like Hägg before him, Larsson was a member of the local council. He was also a county councillor, a member of the board of the Swedish federation of shoemaking employers and of the Uppsala Missionary Congregation. In all, Uppsala in 1910 had almost 300 workers — by then Johan Ekholm also had a factory — and 58 craftsmen in shoemaking. For Sweden as a whole the equivalent figures were 7 000 workers and 25 000 craftsmen.

The Old Burgher Personified

Sven Anders Hägg was born in the south of Sweden in 1817. He became a craftsman in shoemaking in the traditional way. He went to Stockholm for training. After some years of apprenticeship, he continued on to St Petersburg and later to Paris as a journeymen. In 1848 he was back in Sweden and was engaged as a foreman and master shoemaker in Uppsala by John Hemik Lindgren’s widow. Four years later Hägg obtained his freedom as a burgher and took over the workshop.

In the years to come, Hägg choose quite another strategy than his colleague in Vänersborg. A year after the latter had converted his workshop to a factory, in 1873, Hägg attended a meeting of craftsmen in Gothenburg. There he joined a group that wanted to turn the clock back. They fought for the reintroduction of a guild system.
Hägg asserted that the new Swedish laws inspired by the French revolution had destroyed Swedish craftsmanship. Freedom of trade and limited liability stock companies had brought on a devastating competition. The crucial threats – according to Hägg – were the abolition of the old formal training rules and the new right of unencumbered entry. Anyone could employ anyone else. Production was rising and quality was sinking; traditional craftsmanship was on the brink of extinction. Underlying these changes, Hägg discerned a change in the spirit of the times. He called for a revival of the true burgher spirit.

Hägg never did turn his workshop into a factory nor did he ever keep shoes in stock. “As God did not make two things perfectly identical”, Hägg declared, it was impossible to make shoes in series, not trying them out on the customers’ feet. He thus continued making shoes to order. At the same time he argued for – and went right on making – shoes with a straight fitting, i.e. identical left and right shoes. This was the traditional way “in England as well as in Sweden and Norway”. When Hägg combined a claim of better fitting with support for straight fitting he was really arguing for the preservation of tradition.

Hägg’s choice of strategy caused him to lag behind. The output of his workshop reached its peak as early as the 1850s. A hearing-impairment added to his problems, but of course his economic decline was caused basically by a changing environment. Hägg kept his workshop going until 1883. He died poor in 1904.

A Man of the Times

Hägg’s successor as the largest shoe-maker in Uppsala, Lars Erik Larsson, was probably the town’s wealthiest man in 1908. He arrived in Uppsala in 1897 in his late 20s. He had been born in the countryside and, in his youth, had worked for a travelling shoemaker. When he arrived in Uppsala he also had had experience as a shop assistant, selling leather. Now he borrowed some money and bought a leather and shoe shop as well as a small factory, or rather a workshop, making shoes.

In 1898 Larsson registered his own trademark The Horse/Hästen, and in 1899 he bought some new shoe making machines. Later he installed his own power
station, and in 1905 he started leasing machinery from the United Shoe Machinery Company. Having enlarged his facilities he turned his firm into a joint-stock Company, Aktiebolaget L.E. Larsson & Co.

Figure 2

**Branded Shoes for Sale**

![Branded Shoes for Sale](image)

In the first advertisement in the trade press about Lars Erik Larsson’s shoes (1910) one found Hästens Skodon /The shoes of the Horse. For children – Hansel and Gretel – you might buy Riddarkängan/The Knight’s boot.

In 1897 a worker in Larsson’s factory made 8 to 12 pairs of shoes per week; there was little division of labour. The equivalent production in the early 1910s was 25 to 30 pairs. In all, production was 900 â €œ 1 000 pairs of shoes a day. The Larsson collection contained 900 different items. Special shoes were made for children (see figure 2).

During World War One, Larsson sold boots to the German army, and in 1916 production reached a peak. Larsson employed 200 to 250 workers using about 350 machines.
A Follower

Between Hägg and Larsson in the industrialisation of Uppsala shoe making lies – not primarily in time, but in mode of production - Johan Ekholm. He was born in the courmyrside to a shoe producing family. Johan’s father, as his grandfather before him, was the local shoemaker in Hökhuvud, just north of Uppsala. His father moved to Gimo and became a travelling shoe maker. Johan and his two brothers accompanied him and leamed the trade. In 1899 Johan established a workshop in Uppsala. He employed four workers, one being his younger brother Andreas. His sister did the cooking. The boundary between work and leisure was fluid as was that between members of the family and the work-forte. In time Ekhohn’s wife came to participate in the business.

Ekholm followed in the footsteps of Lars Erik Larsson, his fellow member of the Swedish Missionary Congregation. When Larsson moved to a new factory building in 1902, Ekholm rented the old facilities, mechanized production and turned the workshop into a factory. After Larsson had seen and adopted the American system for leasing of shoe making machines, Ekholm in 1907 followed suit. Production expanded. On the threshold of World War One, when Larsson employed 200 to 250 workers, Ekhohn’s work force reached a maximum of 79.

Ekhohn’s models were few and traditional. Straight fitting shoes remained in production. They had a market in the country-side, being popular because they were practical. If you were on your way to the cow-shed and had to put on shoes in the dark you could make no mistake; either shoe was right. Ekholm sold his shoes through Larsson’s wholesaling firm; his work-shoes complemented Larsson’s own products, which were more fashion-dependent. At the same time, Larsson acted as one of Ekhohn’s raw material suppliers.

Ekholm accepted, and approved of, the technical aspects of modem life. He bought himself a bicycle, a lorry and a car and at age 55 he obtained a driver’s licence. In all other regards, however, he was rather conservative. He had no interest in producing fashionable shoes or in new forms of marketing – that was Larsson’s business – nor did Ekholm tolerate innovations in labour-relations; given his patriarchal outlook he was certain to oppose unionisation.
Science in the Service of Industry

Henrik Gahn and his Corporation

The German model of industrialisation – science in the service of industry – was personified in Uppsala by the chemist Henrik Gahn. He was a contemporary of Hägg’s, but he reacted very differently to the new opportunities of his time.

Henrik Gahn was born in 1820 in Falun, in the east of Sweden. His family had ties to science, with some members being interested in the practical applications of scientific knowledge. His father worked in saltpetre manufacturing. His grandfather Gottlieb Gahn was a well-known chemist. He attempted to utilise salts from the copper mines in Falun and he was one of the founders of the Gripsholm sulphur factory. Gottlieb Galm’s physician brother had introduced small pox vaccination in Stockholm in 1802.

During his youth Henrik Gahn was a student at Uppsala university and at the Falun school of mines. Later he participated in preparing a geological survey of Sweden. Before returning to Uppsala in his mid-forties, he also worked as a manager in Swedish sawmilling.

New Technology

In Uppsala, Henrik Gahn hired a few workers and established Uppsala Tekniska Fabrik, partly for the production of ink and shoe polish but mainly for experimental work. In his laboratory, he strove to develop products suitable for industrial production. His experiments were wide ranging. He concocted drinks, cleaning agents, products for personal hygiene and medicinal preparations. Louis Pasteur – the father of bacteriology – recently had published the results of his research on fermentation processes. Within this field, Gahn discovered his products Amykos and Aseptin. The former was intended for disinfection and the latter principally for food preservation. Both were based on boric acid. Diluted Amykos was intended for personal hygiene. The preservative, Aseptin, was used not only for the preservation of food but also for the preservation of cadavres to be dissected. Gahn obtained patents on his products. To produce and market
them, he established in 1872 the first limited liability joint stock Company in Uppsala: Aseptin Amykos AB i Uppsala, later Henrik Gahns Aktiebolag.

The disinfectant had been developed in cooperation with doctors at the academic hospital in Uppsala. Use of the preparation decreased deaths from surgical infections. Gahn introduced Amykos into Europe. It was tested by professor Joseph Lister, the father of applied asepsis, at the university of Glasgow. He had been working since 1867 with another disinfectant; one based on carbolic acid. Nevertheless, in 1875 he reported his positive experience with Amykos in the medical journal The Lancet.

Marketing of Branded Products
Henrik Gahn’s new products had to be publicised. His marketing methods were innovative for Sweden. The preparations were brand-named and heavily advertised. They were displayed at world exhibitions and they were advertised in print. Prominent experts attested to the value of Amykos: Lister’s article was used in advertisements, as were testimonials from professor Mosetig Moorhof — surgeon at the university of Vienna, who had seen Amykos at the 1873 world exhibition in his home town — and professor Carl Benedict Mesterton of the university of Uppsala. Agents were hired in foreign countries. Marketing by way of England aimed at the whole British Empire. The British agent of the early 1870s — Martin Olsson — received the right not only to sell, but also to produce Amykos. This right had already been obtained by the German agent.

In marketing Aseptin, the Company approached the Swedish army, which of course had a great need for food preservation. The new product was tested during manoeuvres in 1871. A problem was that boric acid left a slight aftertaste. Furthermore in the long run the Aseptin was threatened by new competition. In 1877, frozen meat was transported for the first time from Australia to France. Freezing, not Gahn’s Aseptin, was the wave of the future.
New Codes of Conduct

Henrik Gahn did not live to see the expansion of his Company. He died relatively young in 1874. Neither Aseptin nor Amykos had yet found satisfactory markets. Soap based on Amykos was launched in the 1880s, but the problem of finding consumers remained. Henrik Gahn had been ahead of his time. It was not until the turn of the century that his Company could exploit a rising demand and growing markets for soap and, as time went by, a wide range of personal hygiene and cleaning products.

Figure 3.

**Henric Gahns AB. Sales of Chemical Products in Current Prices.**

Expansion, measured by crowns, was – during the war – partly due to inflation.

The knowledge of bacteria, which in the 1860s had stimulated Gahn’s developmental work, was only now, at the turn of the century, producing a new image of cleanliness. Awareness of the linkages between dirt, bacteria and illness was spreading from the middle-class to the working-class and further on into the
Knowledge gave birth to new attitudes. New markets for soap and other personal care products were born out of the new view on hygiene. This new view resulted in a new code of conduct. The ability to meet the new needs for cleanliness were facilitated by the new technology. Water-works and water-mains were expanded. Swedes started to wash, not just once a week but once a day and perhaps even more. Consumption of soap grew rapidly. These new attitudes emerging out of new knowledge and resulting in new codes of conduct finally brought growth and expansion for Henrik Gahns AB.

Cases in Summary

The era of Swedish industrialisation was an age of new institutions (using the concept the way it has been elaborated by North), new technology and growing markets. Institutions, as formal rules of the game, were reshaped. In the middle of the 19th century the system of guilds was abolished, as were the old regulations of commerce. At about the same time new sources of finance were opened by the legalisation of limited liability joint stock companies and by the emergence of new banking facilities. The opportunities to profit from inventions were increased as the patent laws were modernised in 1884 and 1892. Towards the end of the century Swedish producers obtained customs barriers that reduced foreign competition.

New technology involving new production processes, as well as new products, was increasingly available. Some innovations were imported but others were the result of Swedish inventions. Markets grew, not only as a result of changing institutions, but also as a result of a growing population.

Hägg, Ekholm and Larsson — all three of them — had been trained in shoe making, but Hägg’s training had been more advanced and comprehensive than that of Ekholm and Larsson. All three possessed in ample measure the virtues preached by Martin Luther. Hägg was diligent, thrifty and honest. He already had a well established business in the 1850s. He lived to see the expansion and the transformation of shoemaking, but he did not participate. For him freedom of trade was not an opportunity but a threat. He choose to fight for a revival of the
guild system. His conservative attitude was dogmatic and dictated his code of conduct.

Hägg was the old society personified. Larsson – who of course was much younger – by contrast is an expression of the modem manager. He had an open mind both in relation to new institutions and to new technology; he marketed his own brands, he converted his business into a joint stock Company, he was active within the employers’ association and he mechanised his production by introducing American technology. Through his actions he gave expression to a new code of conduct. The result of his strategy was one of the largest shoe-making enterprises in Sweden. His willingness to adapt to modem times might have been stimulated by his attachment to the Swedish Missionary Society, a nonconformist church that fostered many successful managers. This church also was that of Johan Ekholm. He followed in Larsson’s footsteps, but in a more cautious way. His rather modest business expansion might be viewed as a complement to Larsson’s more daring strategy.

A comparison among Sven Anders Hägg, Lars Erik Larsson and Johan Ekholm illustrates that expansion presupposes a productive interplay between the manager and his environment. New formal institutions, new technology and new markets were not sufficient conditions for the expansion of the shoemaking industry. Expansion required managers willing to exploit and Capture the new opportunities of their time. To a considerable extent it was a story of new attitudes and new codes of conduct.

Lars Erik Larsson took an active part in the industrialisation of Swedish shoemaking. He had the will and the capacity to translate into reality the new business opportunities of the age, but he was not an entrepreneur in the Schumpeterian sense; he did not combine the means of production in any new way. The enterprise launched by Henrik Gahn was in the short run less successful, but Gahn displayed the characteristics of Schumpeter’s entrepreneur. He consciously sought a new opening for launching profitable production, and he saw and implemented a novel combination of productive factors. He patented his products, he was the first person in Uppsala to form an industrial joint stock Company and he was an
early exponent of internationally-directed Swedish brand-name advertising. He tried to exploit the opportunities offered by his age, but the time was not yet ripe. His products had to wait for a new attitude to cleanliness to develop in the public consciousness.
Business History as an Approach to Industrial History

Discussion in Relation to North’s Theory

In his theory North underlines the need to analyse strategies chosen within “the rules of the gamel institutions”. He draws a distinction between organisations on the one hand, and institutions, on the other hand. Organisations shape rules or, in other words, impose restrictions (i.e. institutions). These institutions constitute a framework. Changing institutions might or might not induce the actors/players within the economy to choose new strategies. This approach leads to the conclusion that we have to focus on actors to measure the outcome of new institutions.

On the threshold of industrialisation the Swedish Parliament imposed new formal institutions by introducing freedom of trade. Anders Hägg choose not to change his strategy; instead he fought to reintroduce the old restrictions. By contrast, Henric Gahn, though, choose to play according to the new formal rules. Not only did he use his freedom of trade to establish a new business, but he also made use of new institutions by converting it to a limited liability joint stock Company. In addition Gahn choose to play by the new rules by patenting his inventions.

From my perspective, I find a theoretical parallel between organisations and institutions, on the one hand, and the exogenous corps of technicians and technology on the other. Technology shapes a framework and new technology introduces new rules of the game – imposes new restrictions – to use North’s language in a new context. Such new technology might or might not be used by

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12 When it comes to the role of technology North has elaborated a different perspective. He has explored the interplay between institutional and technical change in relation to the expansion of the transaction sector. See Douglass C. North & John J. Wallis, “Integrating
managers. The strategy of Lars Erik Larsson was not only to take advantage of the new framework of institutions, but also to exploit new rules in production by introducing new technology. In principle, I see no difference between the linkage between for example new customs barriers and prices on the one hand and new shoe making machinery and prices on the other hand.

Swedish shoe markets in the late 19th century were expanding as a result of new formal institutions and of new technology but also as a result of population growth. Population growth might be seen as the effect of new informal institutions; of new codes of conduct induced by new technology in the form of smallpox vaccination. Markets, thus, can be viewed as offsprings of institutions and technology.

In my studies of actual firms, though, I have found it fruitful to focus on institutions, technology and markets as separate entities side by side (see figure 1). All three are dependent on the social attitudes of their time and place. These attitudes shape informal institutions: norms, conventions and codes of conduct. 


13 In this concept I want to capture the philosophically based relationship of man to society. This relation has been discussed by North and Arthur T. Denzau in “Shared Mental Models: Ideologies and Institutions”, KYKLOS, Vol. 47. 1994. They conclude “the performance of economies is a consequence of the incentive structures put into place; that is, the institutional framework of the polity and economy. These are in turn a function of the shared mental models and ideologies of the actors.” The authors discuss the possibilities to measure the importance of “mental models and ideologies that have guided choices”, and to integrate these models – with their strong uncertainty problems – in predictions of choice.

I share the perspective of North and Denzau, when I argue that social attitudes – being the offspring of ideology – characterize their time and place, that they to some extent are common property and ought to be integrated in a theory of institutional economics. I do not feel their need for measurement and predictions, though. My ambition as a historian is less high; more frivolous, if you like. Ex. post – and in empirical research over long periods of time – I want to capture the mechanisms behind economic change. To that end I focus on economic actors, primarily actors within firms. To understand their actions I have to grasp their attitudes in relation to the body of thoughts available in their time and place. In my kind of empirical research (covering a wide scope and a long period of time) measurements of mental models are beyond the range of possibility.

14 For an introduction into the debate on the evolution of norms, see Robert Boyd and Peter J. Richerson, “The Evolution of Norms: An Anthropological View” and Ken Binmore and
They are—as I see it—of crucial importance for actors in the economy and, thus, for economic development. The importance of social attitudes behind formal rules— for actors in legislation— has not been explored in this essay, but is evident.

The role of attitudes in economic life is in my case studies mirrored primarily in a comparison between the tragic fate of Sven Anders Hägg’s business and the success of that of Lars-Erik Larsson. Hägg did not accept the attitude spreading in his time. He retained the old social attitude. He personified the spirit of the old Swedish class society. That spirit was the basis for his economic strategy. His business did not take part in Swedish industrialisation. In contrast Lars Erik Larsson—as well as Henrik Gahn—had a very different outlook on life. In some sense they were both modern men with faith in their abilities and their right to advancement in society. This was the prevailing social attitude. The Aristotelian view of life—which claimed that every object and every creature has an ordained place in the universe—was no longer accepted. Thus Aristotle’s claim that man does not have the right to rearrange this hierarchy was rejected. Modern man believes that he has the right to social advancement. Larsson’s and Gahn’s strategy was to conquer the possibilities of their time. As part of industrialisation in Sweden, their firm embodied economic growth. Henric Gahn’s firm had to wait some decades for expansion, though. Looking at his flow of experiments and his shortage of customers, we will find that attitudes form the basis not only for informal institutions regulating supply but also are the basis for demand. Gahn’s open attitude to change brought out a strategy that gave birth to a new Company producing branded products that were the result of new technology. Nevertheless, the expansion of Gahn’s firm had to wait for expanding markets. New markets presupposed new attitudes to cleanliness to bring out new codes of conduct and new strategies amongst customers.

Conclusion

Research in business history is always worth while in its own right. This goes for studies of a population of firms as well as for analysis of individual cases. Nevertheless, my argument in this essay is that research in business history may deepen our understanding of macroeconomic trends. If we focus on the interplay between firms and their framework, business history may be used as a method in industrial history. Research into firms that embody the trends of their time – it might be growth, it might be stagnation or it might be integration – opens up a possibility to analyse the forces behind macroeconomic development. Such an approach to economic analysis might bring out causes and effects that cannot be seen from the macrolevel.

\[A\text{na approach that offers the promise of connecting microlevel economic activity with the macrolevel incentives provided by the institutional framework}\]\(^{15}\)

becomes a plea for business history. The study of the firm gives an opportunity to separate the underlying rules from the strategy of the players,\(^{16}\) to highlight individual choices. The actors within the firm play by exogenous formal rules, but also by informal conventions, norms and codes of conduct based on prevailing social attitudes deeply rooted in ideology. Institutions and the prevailing social attitude constitute a framework within which the population of firms find themselves. This common framework also holds exogenous technology and markets at hand. If our research in business history has a focus on the interplay between the firm on the one hand and the framework on the other, business history becomes a method in business history and a valuable tool in the analysis of economic development.


\(^{16}\) Ibid., p. 4-5.
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6. Anders Ögren: Riksbankens penningpolitik. Kreditför- 

7. Arne Håfors: En statlig affärsbank i Sverige. Driv-

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COMMUNICATION HISTORY

1. Lena Andersson-Skog & Jan Ottosson: Institutionell teori och den svenska 

2. Jan L. östlund: Reglering av kollektivtrafik – striden på 

3. Thomas Pettersson: Regionalpolitik och regional utveckling 
– med fallstudie för Arvidsjaurs flyg-

4. Sven Gerentz: Vägverket och företrädarna för bilism 
och näringsliv – ett nätverks betydelse 
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5. Lars Fältling: Högtflygande planer i debatten om Ar-
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ekonomin-historisk utvärdering av 

7. Erik Törnlund: Vägen till försörjning. Vägbyggandet 
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