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Comment Claudia Rei

Eric Hilt's chapter focuses on late nineteenth-century Massachusetts, a state at the forefront of America's industrial revolution. In particular, Hilt writes about the expansion of the corporate form among manufacturing firms that

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went far beyond the well-known cases of the large textile mills in Waltham and Lowell. These mills were at the very start of America's corporate ownership, but whether they were representative or exceptional in the set of firms adopting the corporate form is unclear in the current literature. Also unclear thus far is the organization of other manufacturing firms that adopted the corporate form. This chapter is therefore a welcome addition to the literature on organizational innovation that has lagged behind that on technological innovation.

Corporation data are available for Massachusetts since the early 1870s, when the state required all firms that had ever adopted the corporate form to file corporate certificates listing all managers and owners. Hilt collects information on all corporate certificates for 1875, matching 601 of these firms to business directories (for the business category), and also to the state manufacturing censuses (for firm size and incorporation date). The findings in table 2.1 show that textile firms were not typical among Massachusetts's corporations, due to their unusually large size and dispersed ownership structure. Furthermore, there was a wide range of corporations in a variety of other sectors that adapted the corporate form to their particular needs, maintaining a small number of directors and stockholders with a high degree of manager ownership.

The diverse set of corporations in the Massachusetts manufacturing sector could be illustrated with further analysis of the available information in table 2.1. Incorporation rates are higher in more capital-intensive industries, as seen in figure 2.2, but incorporation rates could also have varied with respect to the degree of competition in a given industry. In a sector with few firms, adopting the corporate form may have been the only way to compete effectively, whereas in the presence of a large number of competitors such strategic behavior may not have paid off.

It is unclear where textiles fit in this picture. Even though the average capital in all textile establishments (as well as textile corporations) was higher than in other sectors, the incorporation rates did not take extreme values and varied between 17 and 56 percent. Nevertheless, these were higher incorporation rates than the nontextile average, which is perhaps telling of how special this sector was. Since one of the main contributions of the chapter is to highlight the importance of Massachusetts's manufacturing firms beyond textiles, it would be useful to evaluate the overall impact of the textile sector. Do the average variables of interest (for example adoption of the corporate form, capital concentration) vary substantially if textiles are included? There certainly is value in the characterization of Massachusetts's manufacturing industry beyond textiles. But the interested reader would also like to know how much the current literature missed of the early industrial revolution in the United States by focusing primarily on textiles.

Other than characterizing Massachusetts's manufacturing firms, the chapter also evaluates two potential challenges of the adoption of the corporate form. The first is managerial opportunism occurring when a firm's ownership is so widespread that managers were virtually unaccountable to shareholders. The second is minority oppression present when managers use their privileged position to pursue their own interest, or that of large shareholders, at the expense of small shareholders.

To investigate the prevalence of these problems Hilt extracts ownership and governance data from the 1875 corporate certificates for the 601 matched firms in table 2.4. These firms show high degrees of ownership concentration relative to modern standards. The standard deviations of total paid-in capital and total shareholders are higher than the corresponding averages, which in turn are higher than the median values. This pattern signals a highly skewed distribution where very large firms distort average and median results, an indicator of minority oppression. Once the analysis is restricted to the very large firms traded on the Boston Stock Exchange (thirty-one in total) ownership concentration was considerably lower. This evidence suggests the prevalence of managerial opportunism for which there is indeed some anecdotal evidence in the large textile corporations (Ayer 1863; Porter 1937).

On this note, it would be useful to explore whether there was a trade-off between managerial opportunism and minority oppression as ownership concentration varied. In theory, higher managerial ownership should lead to minority oppression but there seems to be no anecdotal evidence for this, potentially due to three reasons: (a) higher degrees of ownership tend to occur in smaller firms, which do not make it to the newspapers or pamphlets and, in general, have less information available in the surviving records; (b) even if such information exists, minority oppression may have been easier to hide since it likely referred to small numbers of minority shareholders; and (c) minority oppression may also have been a smaller problem as minority shareholders in smaller corporations could have been more passive, otherwise they would probably be in management. The available data may not allow the analysis of all these issues, but some exploration of the trade-off would be welcome.

Among the thirty-one firms that were publically traded in 1875 it would be good to know the exact contribution of the large textile mills and if there was any considerable portion of those mills out of this restricted sample. Would excluding the other few major industrial firms from this set change in any way the comparison with the full sample? If the contribution of the remaining firms was substantial and that of unincorporated textile firms was negligible, it could be the case that only firms above a certain scale (eventually just in textiles) could take full advantage of the corporate form. Small firm owners (in textiles or not), therefore, could just have experimented with the new organizational form to surpass original resource constraints but not to considerably expand their production and become big firms.

Ultimately, the objective would be to evaluate the backbone of the Massachusetts manufacturing sector and whether the organizational innovation helped it thrive. Were just a few large corporations pulling all the weight, or was this the role of many tiny firms whether or not they had adopted the corporate form? A clear answer to this question would allow for two additional avenues of research: (a) a within-industry comparison of adopters and nonadopters of the new organizational form to possibly identify its differential effect, and (b) Massachusetts's changing role in American industrialization from an organizational perspective.

The epilogue alludes briefly to the stagnant status of corporate law in Massachusetts after 1875 when other states (New Jersey, for example) embarked in a liberalization trend, which made Massachusetts relatively less competitive. The natural question to ask is, therefore, whether Massachusetts was also falling behind in technology in the last quarter of the nineteenth century, or if textiles were no longer contributing much to the country's industrial production. In either case, if the more competitive sectors were underrepresented in the state of Massachusetts there was little scope to compete with more organizationally advanced states.

Regarding the origin of Massachusetts's organizational advantage, figure 2.1 shows a rapid rise of corporation charters in the state, relative to New England and also to the entire United States, until 1850. The data analyzed later in the chapter, however, comes from 1875 when Massachusetts may or may not have been dominant in the adoption of the corporate form. After the Civil War, Massachusetts's organizational advantage could have changed via industry relocation due to the temporary disruption of cotton prices (Hanlon 2013) or the rising availability of cheap labor in the South in the last quarter of the nineteenth century (Carlson 1981; Wright 1979). Both these events were occurring under continuous innovation in the power technology sector, which itself could have affected Massachusetts's competitive edge (Hekman 1980). Were figure 2.1 extended another fifty years we would be able to observe not only the rise of Massachusetts's corporate advantage, but also its erosion. The latter was evident by 1901 when the state was considered one of the most conservative in terms of corporate law.

An ideal figure would provide a direct comparison of Massachusetts's corporate and industrial advantages between 1790 and 1900. There would be two sets of lines corresponding to two different scales: the first would illustrate the number of corporations per 1,000 persons relative to New England and the United States (as already seen in figure 2.1) and the second set of lines would show industrial capacity per 1,000 persons (or any other metric) also relative to New England and the United States. We already know from figure 2.1 that Massachusetts outperformed New England and the United States until 1850 and supposedly the trend in industrial capacity was no different during that time period. We also know that at some time between 1850 and 1901 the state's organizational advantage vanished, but this was a very eventful half-century in United States history so more discussion is needed on this matter.

If the industrial advantage was still favoring Massachusetts in the early twentieth century, then the chapter could potentially say that the organizational edge was a leading indicator of future economic activity. In particular, it would be relevant to investigate whether the textile sector (despite not being representative of Massachusetts's manufactures) was still at the technological forefront once the corporate edge was gone. If, on the contrary, the two types of advantages showed similar progress, organization may be more connected to technology than previously thought and there may be lessons to take from that as well.

In sum, Eric Hilt's chapter sheds much-needed light in the understudied field of organizational change during the industrialization period and raises important questions about the contribution of the corporate form to American enterprise.

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