The Corporate Revolution

During the late 19th century, a radical transformation took place in the way in which American business was structured and operated. The most obvious contrast involved the corporation's larger size and capitalization. The typical business establishment before the 1870s was financed by a single person or by several people bound together in a partnership. As a result, most businesses represented the wealth of only a few individuals. As late as 1880, the average factory had less than $1,800 in investment. Even the largest textile factories represented less than a million dollars in investment. In contrast, John D. Rockefeller's Standard Oil Company was worth $600 million and U.S. Steel was valued at $1 billion.

Another contrast between the new corporate enterprises of the late 19th century and earlier businesses lies in the systems of ownership and management. Before the Civil War, almost all businesses were owned and managed by the same people. In the modern corporation, actual management was increasingly turned over to professional managers. Within corporations, a management revolution took place.

In the days before big business, business operations required little in the way of management and administration. Companies usually involved only a few partners and clerks. Usually, an owner oversaw all of a business' operations. To insure honesty in a distant office, a merchant might staff it with a relative.

As businesses grew larger, new bureaucratic hierarchies were necessary. A business' success increasingly depended on central coordination. To address this challenge, businesses created formal administrative structures, such as purchasing and accounting departments. Various levels of managers were established, clear lines of authority were devised, and formal rules were created to govern the company's operations. The managerial revolution helped to create a "new" middle class. Unlike the older middle class, which consisted of farmers, shopkeepers, and independent professionals, the new middle class was made up of white collar employees of corporations.

Yet another sweeping change in business operation was the corporation's increased size and geographical scale. Before the 1880s, most firms operated in a single town from a single office or factory. Most sales were made to customers in the immediate area. But the new corporate enterprises carried out their functions in widely scattered locations. As early as 1900, General Electric had plants in 23 cities.

In addition to carrying out business in an increasing number of locations, the new corporations also engaged in more kinds of business operations. Prior to the Civil War, merchants, wholesalers, and manufacturers tended to specialize in a single operation. But the late 19th century, greatly expanded their range of operations.

During the late 19th century, businesses typically grew as a result of vertical and horizontal integration. When a company integrated vertically, it brought together various phases in the process of production and distribution. Thus U.S. Steel took iron ore from the ground, transported it to its mills, turned it into steel and manufactured finished products, and shipped the products to wholesalers. Somewhat similarly, the great meat packing houses like Swift, which had 4,000 employees, and Armour, with 6,000, combined the business of raising, slaughtering, transporting, and wholesaling meat. Swift developed a fleet of refrigerator railroad cars, which allowed it to bring cattle and hogs to a central packing house in Chicago, where the company could make use of every part of the animal "except the squeal."

When a company integrated horizontally, it expanded into related fields of business. In the 1850s, an iron furnace might produce a single product such as cast iron or nails. But U.S. Steel produced a vast array of metal goods.

During the last third of the 19th century, the American economy was dramatically transformed. After 30 years of periodic economic crises marked by high unemployment and large numbers of business failures, business began to consolidate into progressively larger economic units.

Mythmakers sometimes look back on the late 19th century as the golden age of free enterprise. But it is important to emphasize that the rise of a new economy did not take place easily. Working conditions in many factories were appalling. Labor conflict was intense. Businesses were accused of price fixing, stock watering, and other abuses.

In the end, these abuses would bring about a political reaction. To address the problems of corporate power, the federal government instituted new forms of regulation in the late 19th and early 20th centuries.