THE SURVIVAL AND DECLINE OF LOCALLY-BASED AND FAMILY FIRMS IN THE KIRKCALDY AREA, CA. 1900-1960

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I confirm that the thesis is entirely my own work.

R.L. Mackie

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ABSTRACT

This thesis will look at the development of the business structure of industry in the Kirkcaldy area between ca. 1900 and 1960. Relative economic decline and the loss of autonomy are central to our understanding of Scotland today. This thesis contributes to our understanding of these processes by examining change in one region both at the level of the business community and of the individual firm. The thesis will explore how the stock of manufacturing and coal-mining companies changed over time and how this was affected by company strategies. The discussion will be linked to the historical debate about the nature of entrepreneurship in Britain and the influence of family ownership on business decision-making. Kirkcaldy was chosen because its relative prosperity in this period meant that it was seen by contemporaries as a potential centre for the revival of the Scottish economy. The thesis will explain why the locally-owned and based companies which dominated the area into the 1950s did not contribute more to this process.

The thesis will start by explaining how valuation rolls and the Register of Company files have been used to map the structure of business. It will be argued that the combination of these two sources makes it possible to explore such issues as turnover in the stock of businesses and changing patterns of ownership. The data thus collected will be used to trace the development of business in the area over time. In particular, it will emphasize the low rate of turnover in the stock of manufacturing companies between the 1920s and the mid-1950s and the rapid restructuring of the local economy thereafter. The thesis will next examine the reasons for the increasing longevity of companies in the period to the 1950s. It will link this first of all to the adoption of limited liability which allowed firms to overcome some of the causes of instability in the Victorian era. Whilst ownership was dispersed, control in both family and other firms was retained by small groups of business leaders who ran their firms in similar autocratic fashions. In the final two chapters, the policies followed by these men will be examined. Looking first at production and then at financial management, it will be argued that the strategies pursued were designed to reduce risk and therefore increased firm longevity. By the late 1950s, however, the legacy

of years of caution left many businesses in poor shape to meet new challenges. When changes in demand forced companies to abandon these defensive policies, the results were often disastrous.

The thesis will conclude that the pattern of business development had less to do with the survival of family control, than with the way businessmen responded to the perceived situation. In the inter-war years, insecurity made the rewards of risk-taking too uncertain and survival became for many the overriding priority. Less cautious policies were only adopted when the balance of risk between change and continuity changed decisively in the 1950s.

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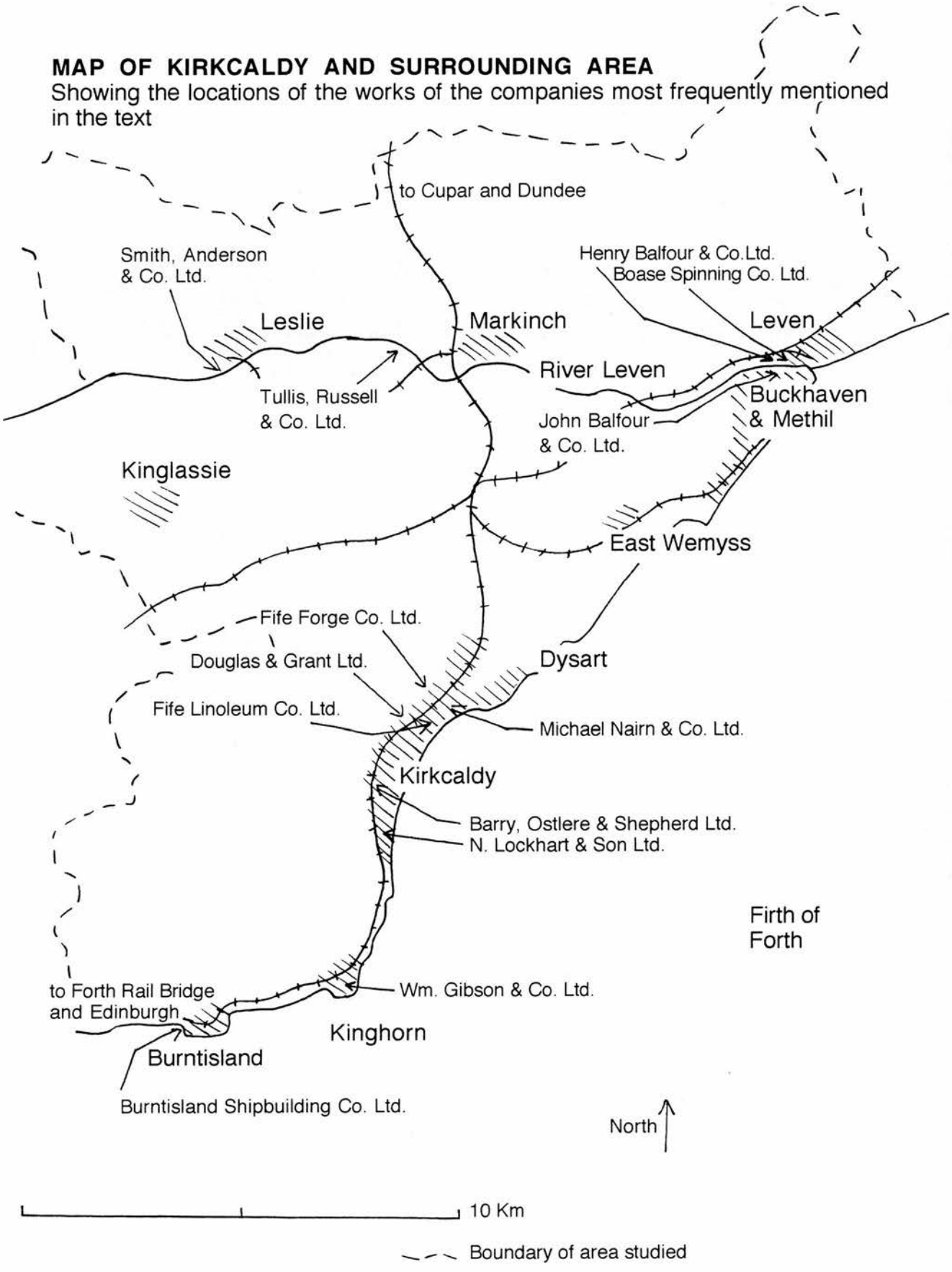
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MAP OF KIRKCALDY AND SURROUNDING AREA
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CHAPTER 1. INTRODUCTION

1.1 The Subject: Survival, Autonomy and Decline

This thesis is about the survival and decline of manufacturing and coal-mining companies in one region of Scotland in the first sixty years of the twentieth century. It seeks to explore the economic development of the area - the burgh of Kirkcaldy and the surrounding district - by looking at the firms which made up the industrial sector of that economy and how they developed over time. In particular, it aims to explain how so many family-controlled and other locally-owned firms in the area survived the changing and often difficult trading conditions of the first half of the century and why many of them closed or were taken over in conditions of greater stability and prosperity in the 1950s and 1960s. As such, it seeks to make a contribution to our understanding both of the processes of regional growth and decline and of the structures and strategies of small and medium-sized firms in the first half of the twentieth century.

The thesis started as an enquiry into a specific aspect of Scotland's relative economic decline. The last two decades of Scottish history have been punctuated by crises in which the survival of Scotland's major industrial establishments was put in jeopardy by distant decision-makers - Upper Clyde Shipbuilders, Invergordon, Bathgate, Ravenscraig, Rosyth, the list could easily be extended.[1] The dependence of the Scottish economy on these giant industrial plants was surely partly the result of the relatively minor role played by smaller and locally-based industrial enterprises. The situation stands in stark contrast to the significant role played by small and medium-sized enterprises with strong local roots in more successful European economies, such as Germany, Switzerland or the Netherlands.[2] The comparison is all the more striking because, by all accounts, at the turn of the century Scottish industry was both of global significance and locally-

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[1] One of the first of these crises is analysed in J. Foster and C. Woolfson The Politics of the UCS Work-In. Class Alliances and the Right to Work (London, 1986), esp. Chs. 1 and 2.

[2] On the continuing significance of small and medium-sized business in Germany, see G. Bannock The Smaller Business in Britain and Germany (London, 1976), pp. 33-46; S.J. Prais Productivity and Industrial Structure. A Statistical Survey of Manufacturing Industry in Britain, Germany and the United States (Cambridge, 1981); C. Sabel, G. Herrigel, R. Deeg, and R. Kazis 'Regional Prosperities Compared: Massachusetts and Baden-Württemberg in the 1980s', Economy and Society, 18, 1989.

based.[3] What had happened to this vital and significant sector? How and why had Scottish-owned firms ceased to dominate the Scottish economy?

The aim was, therefore, to explore the reasons for the decline of the locally-controlled economy during the first half of the twentieth century in one area of Scotland. For this, the area surrounding the burgh of Kirkcaldy in Fife was chosen. The area possessed two clear advantages for study. Firstly, it was a relatively discrete industrial district, separated geographically by the Firth of Forth from most other industrial parts of Scotland and, more significantly, one in which industrial development was largely locally-generated and locally-controlled. Secondly, the area possessed an unusually diverse and prosperous economy in the period between the 1920s and the 1950s. Both points will be discussed in greater detail below. Together they combined to make the area an interesting test-case: if a locally-based economy was likely to flourish anywhere in Scotland, surely an area such as the one around Kirkcaldy was ideal.

Very rapidly two points - perhaps obvious ones - became apparent; both have had a profound bearing upon this thesis. The first was the central importance of companies. Investigations into the records of local organisations which might have had an impact upon economic decision-making - the Kirkcaldy Chamber of Commerce, the Town Council, Fife County Council Planning Committee, the Glenrothes Development Corporation - showed that economic issues were barely even discussed. For instance, in 1944, the County Council appointed an advisory committee of representatives of all sections of the community, including some of Fife's leading industrialists, 'to make recommendations to the Planning Committee of the County Council with respect to the future development of . . . the County'; the report produced by the committee two years later had no suggestions concerning industrial development beyond some general observations about the desirability of light industry and improved infrastructure.[4] Nor was this because of the lead role played by central government. As has been widely noted, post-war governments relied

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[3] See, for instance, S. Checkland Industry and Ethos. Scotland 1832-1914 (London, 1984), pp. 172-181.

[4] Fife County Council Planning Advisory Committee, Fife Looks Ahead (Edinburgh, 1946), esp. pp. vii, 224-5.

principally on macro-economic levers to manage the economy and had neither the means nor the desire to get involved with any but the largest companies.[5]

Throughout the period covered by this study, therefore, with the exception of the nationalized coal industry, the decisions affecting the growth and decline of companies were made at the level of the firm. If government actions came increasingly to influence the environment in which those decisions were made, their influence is best seen as part of the general context of business decision-making, in the same way as the more general legal and economic framework. It would have been foolish, of course, for boards and managers to ignore that environment, but how they interpreted it and what policies resulted from this interpretation was ultimately up to them.

Secondly, it soon became apparent that the economic development of the Kirkcaldy area in the first half of the twentieth century was not simply a story of decline, but also one of survival and, at times, even of regeneration. Reports on the area in the inter-war years and the decade which followed the Second World War described an economy which was dominated by locally-owned firms, some of which were extremely successful. In the 1930s and after World War Two, the area was seen as a potential centre for future growth - 'the future workshop of Scotland'.[6] Assessments of the economic outlook in the 1970s were again highly optimistic.[7]

Furthermore, if the Kirkcaldy area was one of the more resilient industrial areas of Scotland in the inter-war years, the elements of survival and regeneration in the twentieth-century economic development of Scotland as a whole should not be ignored. Scottish economic history has been

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[5] A. Cairncross Years of Recovery. British Economic Policy 1945-51 (London, 1985), esp. pp. 311-4, 343-4, 446-462; P. Hall 'The State and Economic Decline' in B. Elbaum and W. Lazonick (eds.) The Decline of the British Economy (Oxford, 1986).

[6] Fife County Council Fife: The Future Workshop of Scotland (Cupar, 1947). For surveys of the economy in Fife in the inter-war and immediate post-war years, see C.A. Oakley Scottish Industry Today (Edinburgh, 1937), pp. 96-109; A. Smith The County of Fife (Edinburgh, 1952), esp. Ch. 7 to 11; Fife Looks Ahead.

[7] D.C.D. Pocock 'Economic Renewal: The Example of Fife', Scottish Geographical Magazine, 86, 1970; J. McNeil 'Central Fife as a Growth Area. A Geographical Appraisal' (unpubl. PhD thesis, Edinburgh, 1971).

dominated by the contrast between the nineteenth and twentieth centuries, and the emphasis has been on explaining how the 'rise' led to the 'fall' and 'contraction' followed 'growth'.[8] Histories of industries or of individual companies in the inter-war years, however, have often revealed a tale of survival in the face of dramatic odds rather than one of defeat.[9] Similarly, from the 1970s on, the Scottish economy has frequently grown faster than the British one, so that the gap between Scottish and British per capita production has gradually narrowed.[10]

At the same time, there is a clear sense in which the language of decline is entirely appropriate. In both Fife and Scottish terms, the economy of the 1970s and after was very different from that which had existed twenty years earlier. By 1970, the traditional industries of the Kirkcaldy area, such as linen and linoleum, had shrunk to a fraction of their former size and even the coal industry was well past its peak. Their place was taken by engineering companies and, in particular, electronic ones.[11] This shift in the industrial structure was accompanied by a shift in the ownership of industry. As will be shown, whereas in 1950, as in 1900, most manufacturing and mining enterprises operating in the Kirkcaldy area were locally-owned and controlled, twenty years later, most of the largest industrial establishments were branch factories or subsidiaries of national or foreign-owned companies. Here too, there are clear parallels to the Scottish experience. According to Scott and Hughes, in 1980,

> . . . the Scottish economy has moved away from being a more or less separate economy in the nineteenth century - at least as independent as any politically independent nation might have been - and has become merely a relatively autonomous sub-system of the British economy. Political union between England

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[8] R. Campbell The Rise and Fall of Scottish Industry, 1707-1939 (Edinburgh, 1980); P.L. Payne Growth and Contraction. Scottish Industry c.1860-1990 (Glasgow, 1992).

[9] See, for instance, A. Slaven 'A Shipyard in Depression: John Browns of Clydebank, 1919-1938', Business History, 19, 1977; R.H. Campbell 'The North British Locomotive Company Between the Wars', Business History, 20, 1978; P.L. Payne Colvilles and the Scottish Steel Industry (Oxford, 1979).

[10] C. Lythe and M. Majmudar The Renaissance of the Scottish Economy? (London, 1982), pp. 115-6; Payne Growth and Contraction, pp. 46-9.

[11] On the transformation of the Fife economy in the 1960s, see Pocock.

> and Scotland happened in 1707, but economic union is only now being completed.[12]

A significant shift therefore took place in the post-war years from an economy which possessed considerable autonomy, to one dominated by firms controlled from elsewhere. If the shift brought gains as well as losses to Scotland,[13] it marked the end of an era in the economic development of the Kirkcaldy area and of Scotland, an era in which the fate of the region was intimately bound up with that of local enterprise.

The original question concerning the weakness of locally-owned enterprise in Scotland, therefore, became an investigation into a specific era in the economic history of the Kirkcaldy area and why it ended. This investigation has been shaped by the two points discussed above. Firstly, as indicated, it is about companies. It seeks to explore the industrial sector of the economy by looking at it as a collection of firms; as such, it is a study of all the manufacturing and coal-mining firms in the area. It aims to both investigate companies individually, but also, since many of the processes affected more than one firm, to pay particular attention to the differences and similarities between them. Many (but by no means all) of these firms were family-owned and the significance and implications of family ownership became an important element in the argument. Secondly, it is a study both of survival and of decline. In exploring the development of the economy of the area, it seeks to explain both how locally-based businesses managed to survive in the first half of the century, despite often difficult conditions, and why later, in the 1950s and 1960s, so many of them closed or were taken over. The thesis is, therefore, above all, about the decisions made within firms; about the policies pursued by firms and their consequences; about why certain courses were followed and others were not. It seeks to understand the survival and decline of locally-based enterprise by looking at the locus of decision-making and the decisions made.

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[12] J. Scott and M. Hughes The Anatomy of Scottish Capital. Scottish Companies and Scottish Capital, 1900-1979 (London, 1980), p. 260.

[13] For a recent look at external control and the Scottish economy, see G. Rosie 'How Scotland is Losing the Heid' The Scotsman, 29.11.1991., The literature on this issue is explored in Chapter 3, section 3.4.2.

The rest of this introduction sketches the context of this investigation. In the following section, it seeks to place the thesis in the wider historical debates about regions and firms. This brief review does not purport to be a thorough survey of the literature. The relevant literature was so diverse that it was found to be most useful to consider it in the chapters to which it related. The aim here is to explore the context of the question and of the answer: to look, on the one hand, at the role played by the regional dimension in discussions on Britain's development in the twentieth century and at some questions left unanswered by this approach, and, on the other, to explain briefly how the answer provided in this thesis relates to other work on firms and business behaviour. It also explains the structure of the thesis. The final section of the introduction provides the local context to the thesis: it consists of a very brief profile of the area studied and its economy.

1.2 The Context: Regions and Firms

The pronounced regional differences in industrial development in Britain have long been noted. During the nineteenth century, resource or locational advantages were used by local entrepreneurs to build up specific industries, so that different cities and regions developed industrial specializations in which large numbers of firms congregated in the same industries. Marshall used the term 'industrial district' to describe the most famous of such specialized industrial areas, the Lancashire cotton district around Manchester.[14] Both Lancashire and other areas concentrating on a narrow range of industries have been the focus of studies on the origins and development of industrialization.[15]

The main theme of studies of regional development in the twentieth century has been slightly different. The central concern has been to explain the rise of significant disparities between the prosperity of different industrialized areas in the United Kingdom. Here, the work of Massey, with her emphasis on the 'spatial distribution of production', has been particularly influential.

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[14] A. Marshall Industry and Trade (London, 1919), pp. 599-603.

[15] See, for instance, P. Hudson The Genesis of Industrial Capital: A Study of the West Riding Woollen Industry, c. 1750-1850 (Cambridge, 1986); R. Lloyd-Jones and M.J. Lewis Manchester and the Age of the Factory. The Business Structure of Cottonopolis in the Industrial Revolution (London, 1988).

According to Massey, 'one of capital's crucial advantages over labour is its great, and increasing, geographical mobility'.[16] This advantage is used to escape constraints such as an organised or militant labour force. The result is the creation of a hierarchy of regions, in which the most complex and the most strategic tasks are kept close to home, whilst less skilled ones are devolved to peripheral regions which can easily be inter-changed.[17]

Following this line, the dominant interpretation of the changing industrial geography of Britain in the twentieth century has been to emphasize the increasing integration of the economy. As the importance of access to natural resources for production waned, an increasingly integrated and national capitalist elite located new industries in the South and Midlands, whilst the former industrial areas of the North and West became a deprived 'Outer Britain'. The contrast between 'Inner' and 'Outer Britain' has provided a useful analytical tool for understanding the important differences in economic development between regions of the United Kingdom in the inter-war years and post-war period.[18] Much of the power of this tool has derived from the link made to the distinction between 'staple' and 'new' industries first made by Richardson.[19] To simplify, the problems of 'Outer Britain' were seen as resulting from its 'over-commitment' to traditional staples such as cotton and coal, whilst the new consumer oriented industries developed in the South and East.[20]

There are, however, two problems involved in using this argument to explain the growth of regional inequality in Britain in the first half of the twentieth century. First of all, there is a problem in explaining why regional specialization should have led so often to decline. This problem has partly arisen because most work has been done on the regional dimension of economic development from a national rather than from a regional perspective. In particular, wide use has been made of statistics on

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[16] D. Massey Spatial Divisions of Labour. Social Structures and the Geography of Production (London, 1984), p. 57.
[17] Ibid., esp. Ch. 3.
[18] For a recent study which has used this model, see S. Ward The Geography of Inter-War Britain: The State and Uneven Development (London, 1988).
[19] H.W. Richardson Economic Recovery in Britain, 1932-9 (London, 1967), esp. Ch. 4.
[20] C.H. Lee Regional Economic Growth in the United Kingdom Since the 1880s (Maidenhead, 1971), esp. Chs. 7 and 8; C. Law British Regional Development Since World War One (Newton Abbott, 1980), pp. 69-76, 83-98.

population and employment derived from the censuses of population which are recorded by county. Since, by the twentieth century, counties were rarely cohesive economic units, it was necessary to aggregate this data to create statistics for regions with a 'general economic unity' which could be compared at a national level.[21] The result has been that the regions were large and internally diverse, and did not necessarily possess the clear economic unity of an industrial region in the sense used by Marshall. Thus, what is in geographical terms one of the smaller regions, the North-West, includes not only Manchester and the surrounding cotton districts, but also towns with such divergent economies as Crewe, Chester, Liverpool, Blackpool and Barrow-in-Furness. In one sense, of course, this diversity makes the evidence of specialization revealed by aggregate employment statistics even more striking: if only part of Lancashire worked in cotton, then the locational quotients for the cotton towns themselves must have been even more extreme. Yet when account is taken of this local variety, the picture is made more complex. A distinction is often made between South Wales or the North-East, where specialization is held to have been most extreme, and areas such as Lancashire, which Lee, for instance, would classify as an 'intermediate area' between 'Inner' and 'Outer' Britain.[22] When specialization within the standard regions is also noted, the clear lines of an 'Outer Britain' committed to a narrow range of industries is dissolved into a complex picture of many local specializations in related but distinct industries. This is not to deny the bias of British industry as a whole towards certain industrial sectors, many of which ran into problems in the inter-war decades. But there is a danger that the broad regional and industrial categories used in national statistics disguise the variety of local circumstances. This variety is important because if a theory of regional 'over-commitment' is to explain the divergent experiences of different parts of the United Kingdom, it needs to explain both the failure of so many established industries to remain competitive and also the failure of so many regions to diversify in more profitable directions.

The second problem is that the theory of regional over-commitment describes but does not explain the process of the spatial redistribution of production. In itself, it does not explain why new industries developed in

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[21] Lee, pp. 1-3, 210; Law, pp. 25-31.
[22] Lee, pp. 184-202; Ward, pp. 5-7.

certain parts of the country and not in others. For Lee, the main reason for the location of new industries in Inner Britain has been the pull of larger markets. Whilst the size of the market in South-East Britain cannot be doubted, an answer to this point has been provided by Richardson, who writes:

> The usual explanation of the tendency of these predominantly consumer good industries to cluster in and around London is the attraction of the large market which the metropolis provided. This is possible, but it should be remembered that there were large markets elsewhere (even if the average income of consumers in these markets was a little lower) and one advantage of the provincial markets was that they were much less competitive. Perhaps the real explanation was the desire of firms in the expanding trades to locate themselves as far away as possible from the depressed areas of the North and West.[23]

This emphasis on the mobility of capital is also shared by Ward.[24] Ward argues that capital was increasingly dominated by London in the inter-war years and in support he points to the concentration of English banking in London after the turn of the century. But this is surely to exaggerate the role of the banks in this period. He suggests, for instance, that the North-East was one area which showed a 'high degree of external control of capital, principally from London, by the early twentieth century'.[25] In their study of the area, however, the Benwell team argues that industry remained locally owned and controlled throughout the period.[26]

The problems of making 'over-commitment' explain regional complexity become particularly acute when Scotland is considered. Although it is at times recognised that Scotland fits less well into theories of over-specialization than other regions,[27] it is still often presented as one of several export-oriented regional economies of the United Kingdom, heavily

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[23] Richardson, p. 277.
[24] Ward, pp. 5-7, 16.
[25] Ibid., p. 6.
[26] Benwell Community Project The Making of a Ruling Class. Two Centuries of Capital Development on Tyneside (Newcastle, 1978), pp. 49-50, 60.
[27] Law, for instance, writes that the 'low [specialization] figures for regions like the North West and Scotland may at first sight seem puzzling, although their size and the degree of disaggregation may explain some of their diversification', p. 73.

dependent on shipbuilding, steel and coal.[28] Yet, as Kendrick, Bechhofer and McCrone have shown, 'Scotland as a whole ranks among the least specialized regions of Britain' conforming more closely to British norms of regional specialization than any other region for most of the period between 1851 and 1971.[29] Instead, they suggest that Scotland should be seen as a number of highly specialized regional economies and point to the significance of textiles in Paisley, Dundee and the Borders as well as shipbuilding on the Clyde, and coal in Fife, Ayrshire and West Lothian.[30] Even the county figures hide the full picture: in 1911, according to Kendrick, Bechhofer and McCrone, 44.1% of Fife's industrial employment was in mining and quarrying, and there can be no doubt that coal was of major importance to the county.[31] Yet in 1911, the Dunfermline linen industry was at its height, the fishing villages of the East Neuk were flourishing, Kirkcaldy was developing as one of the major centres of the linoleum industry, and most of the smaller burghs of the north and east of the county had their own, well-established local industries.[32] The point is not that specialization did not occur, but its variety. Scotland was not one specialized region but a complex web of specialized regional and local economies.

This regional variety is significant because much of the debate about Scotland's economic decline has concentrated on developments within a number of key industries. There can be no doubt that the size of the Clydeside conurbation and the importance of the shipbuilding industry within it meant that the implications of a collapse in that industry were far-reaching. As Slaven and Campbell, among others, have shown, the causes of that collapse also affected other industries which traded to similar markets, and the close links which existed between the shipbuilding and steel industries and between steel and coal meant that the consequences

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[28] See, for instance, T. Dickson et al Scottish Capitalism. Class, State and Nation from Before the Union (London, 1980), p. 248.
[29] S. Kendrick, F. Bechhofer and D. McCrone, 'Is Scotland Different? Industrial and Occupational Change in Scotland and Britain' in H. Newby (ed.) Restructuring Capital. Recession and Reorganisation in Industrial Society (London, 1985), pp. 99, 69-85.
[30] Ibid., pp. 76-8, 81-5.
[31] Ibid., p. 76.
[32] H. Walker 'The Rise and Fall of Dunfermline Linen', Scottish Industrial History, 16, 1993; Smith, pp. 222-8, 286-92; G. Bennett The Past at Work (Kirkcaldy, no date).

of this collapse reached deep into the Scottish economy.[33] Yet the range of regional specializations and the external orientation of so many industries means that a knock-on affect spreading throughout the country should not be seen as automatic. Dunfermline linen was more affected by developments in New York than in Glasgow; the main market for the Borders woollen industry was in South-East England.[34] Even within an industry such as coal, regional differences could be important: the problems facing the East Coast colliery companies were very different from those in Lanarkshire and Ayrshire.[35] Regional and local specialization meant that well into the twentieth century, local prosperity was dependent on the particular problems facing specific industries.

Secondly, Scottish industry remained overwhelmingly locally-controlled. The autonomy enjoyed by the Scottish economy at the turn of the century has already been noted; although Scott and Hughes detect a shift in the inter-war years towards greater links between large Scottish and English companies, they see the decisive shift occurring only after World War Two.[36] In the inter-war years, if the largest Scottish companies had national interests and the businessmen who led them were figures of national importance, they remained primarily Scottish industrialists with strong local roots.[37] If attention is turned from the largest companies to the many medium-sized and smaller ones, the extent of local ownership becomes overwhelming. When Oakley made his two surveys of Scottish industry in 1937 and 1953, he revealed an economy made up of a multitude of small and locally-owned enterprises.[38] For Foster and Woolfson, the decisive phase in which the dominant role of Clydeside capital in the West of Scotland was usurped came after World War Two and followed decades of stagnation.[39]

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[33] A. Slaven The Development of the West of Scotland, 1750-1960 (London, 1975), pp.183-201; Campbell Rise and Fall, pp. 56-73.
[34] P. Livingstone Flax and Linen Through the Ages (Kirkcaldy, 1952), p. 19; C. Gulvin The Scottish Hosiery and Knitwear Industry, 1680-1980 (Edinburgh, 1984), pp. 65-73, 78-9.
[35] A. Slaven 'The Extractive Industries' in A. Slaven and S. Checkland (eds.) Dictionary of Scottish Business Bibliography, Vol. 1, (Edinburgh, 1980) pp. 9-14.
[36] Scott and Hughes, pp. 108, 154.
[37] Dickson et al, pp. 248, 256.
[38] Oakley; C.A. Oakley (ed.) Scottish Industry (Edinburgh, 1953).
[39] Foster and Woolfson, p. 21.

To explain Scotland's economic problems in the twentieth century either in terms of an over-commitment to a narrow range of industries or to domination by externally-based mobile capital is, therefore, too simple. Local specialization certainly existed, but it was to a large number of diverse industries which faced individual and often distinct problems. If the Scottish economy was increasingly integrated into the British one, the process was a prolonged one, and may have been as much a consequence as a cause of decline.

It is into this context that this study fits. The context also explains the choice of the Kirkcaldy area of Fife. Until the 1950s, the area was a relatively discrete economic unit, in which, as will be seen, most companies were locally owned. Links with the crisis-ridden west of Scotland were particularly weak. It also does not easily fit into the model of an 'Outer' and an 'Inner Britain'. Fife had industrialised late, but developed rapidly in the forty years before the First World War and by 1914 was clearly a predominantly manufacturing and mining area. Part of this expansion was related to the opening up of the East Fife coalfield, but old-established industries such as linen and paper had continued to flourish and a major new consumer industry, linoleum, had developed. In the inter-war years, the Kirkcaldy area possessed both export-oriented 'staple' industries and industries producing for a British consumer market. Smith argues that this range protected the area in the inter-war years and shows that unemployment in the county, which included the much more severely hit Cowdenbeath and Dunfermline areas, was barely above the British average in the 1920s and 1930s.[40]

In the longer-term, however, despite this isolation from the worst-affected areas of Scotland and despite the mix of industries, the area shared the fate of other parts of Scotland, with the closure of many locally-owned concerns in the 1950s and 1960s. It is important to note that the influx of outside firms, which was part of the restructuring of the economy in the 1960s, followed and did not precede the decline of local firms. Chapter Three, which uses data on the stock of enterprises and on company life-cycles, will chart this process.

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[40] Smith, pp. 54-5. See also section 1.3 below.

An explanation for the pattern of survival and decline in the economic development of the Kirkcaldy area cannot, therefore, simply be phrased in terms of too great a commitment to certain decaying industries or of a shift in mobile and external capital. The range of industries present in the area was wide and included some which were consumer-oriented, and most local industry had strong local roots. To understand developments in the Kirkcaldy area, it is necessary to look at developments within the area, and in particular at the key locus of economic decision-making, at firms.

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Firms have long been seen as one of the key institutions of the modern economy. 'In a private enterprise industrial economy the business firm is the basic unit for the organization of production', writes Penrose. 'The greater part of economic activity is channelled through firms. The patterns of economic life, including the patterns of consumption as well as of production, are largely shaped by the multitude of individual decisions made by the businessmen who guide the actions of the business units we call firms'.[41] In The Logic of British and American Industry, Florence talks of the firm as 'the industrial unit of government' and draws a parallel to the sovereign state.[42] In view of the importance attached to enterprises as the locus of decision-making, it is not surprising that attempts have been made to understand an economy through the companies that compose it. In terms of business history, this approach has chiefly been associated with the influential work of Chandler on American and later on British and German business.[43]

Chandler's emphasis, however, is very much on big business, 'those industries which were most responsible for the growth of the world's three largest industrial nations'.[44] In his view, the significant and sustained role played by the largest companies in the United States since the early years

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[41] E. Penrose The Theory of the Growth of the Firm (Oxford, 1959), p. 9.
[42] P.S. Florence The Logic of British and American Industry (London, 1953), p. 17
[43] A.D. Chandler The Visible Hand. The Managerial Revolution in American Business (Cambridge, Mass., 1977); ibid., Scale and Scope. the Dynamics of Industrial Capitalism (Cambridge, Mass., 1990).
[44] Chandler Scale and Scope, p. 4.

of the century is sufficient to justify this emphasis.[45] Although a similar approach has been adopted in studies of British industry, not least by Chandler himself,[46] there are a number of reasons for questioning whether the structure and development of industry can adequately be explained through the behaviour of the largest firms, particularly in Britain. First of all, large firms everywhere remain a tiny minority among the total population of firms. Their very size, and the opportunities and problems this creates, means they are different from other firms. It cannot be assumed that their behaviour will be similar. Secondly, industrial concentration was much less pronounced in Britain than in America until the late 1960s, and may even have declined between the 1930s and 1950s.[47] More important, the structure of British enterprise and, in particular, the greater significance of small and family-owned firms has been presented as a significant factor in explaining differences in the economic development of the two countries.[48] Finally, the role of new ventures is clearly important in understanding economic change over time. Almost inevitably, this means looking at smaller firms. To attempt to explain the development of a regional economy in Britain in the first half of the twentieth century solely on the basis of the experience of its largest firms seems dangerously limited. Looking at an economy as a collection of firms, means exploring the whole range of firms.

Relatively few attempts have been made to study the business structure of industry in early twentieth-century Britain.[49] Part of the problem has been the absence of data. The British tradition of regarding business as a private matter concerning only the partners and shareholders has meant that even

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[45] Ibid., Visible Hand, pp. 363-71.

[46] D. Channon The Strategy and Structure of British Enterprise (London, 1973); Chandler Scale and Scope, Part III.

[47] P.E. Hart and R. Clarke Concentration in British Industry (Cambridge, 1980), Ch. 2; L. Hannah The Rise of the Corporate Economy (revd. edition, London, 1983), pp. 125-7.

[48] See, for instance, S. Pollard Britain's Prime and Britain's Decline (London, 1989) pp. 55-6; W. Lazonick Business Organization and the Myth of the Market Economy (Cambridge, 1992), pp. 45-9.

[49] More work has been done on mapping the business structure of 19th century industry. See, in particular, Lloyd-Jones and Lewis; V Gattrell 'Labour, Power and the Size of Firms in Lancashire Cotton in the Second Quarter of the Nineteenth Century', Economic History Review, 30, 1977; R. Rodger 'Concentration and Fragmentation. Capital, Labour and the Structure of Mid-Victorian Scottish Industry', Journal of Urban History, 14, 1988.

at a statistical level evidence is sparse.[50] Censuses of production were carefully constructed to preserve anonymity, and until the research produced for the Bolton Committee in the 1960s, no reliable data is available on the number or life-cycle of small firms.[51] Company registrations have been used by Payne and Foreman-Peck, in particular, to obtain some figures on company entry-rates and business longevity, but this of course only relates to registered companies.[52]

This thesis proposes a method to produce data which makes it possible to explore the population of all but the smallest industrial enterprises in Scotland in the first half of the twentieth century. No similar work appears to have been done before and Chapter Two, therefore, explains the sources and methods used in some depth. The two main sources used are valuation rolls and the Register of Company files. Valuation rolls give data on the names, the number and the size of enterprises, whilst the Register of Company files - which in Scotland, unlike England, have largely been preserved - give details on the major events in a company's life, its ownership and its board.

Chapter Three uses this data to explore the structure of business in the Kirkcaldy area between 1900 and the 1960s. It looks at the number and size of firms and their distribution between industries; entry and exit rates from business and how long firms survived; and the ownership of enterprises, both in terms of kinship links between shareholders and the geographical spread of ownership. What emerges is a picture of considerable complexity, but one in which a number of key trends can be discerned. Particular attention is drawn to the period between around 1920 and 1955 in which a low entry rate into business and the high survival rate for existing enterprises gave considerable stability to the structure of business in the area. This was followed by a period of change after the

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[50] On attitudes towards business confidentiality, see I. Stewart 'The Ethics of Disclosure in Company Financial Reporting in the United Kingdom, 1925-1970', The Accounting Historian's Journal, 18, 1991.

[51] Report of the Committee on Small Firms (Bolton Committee), 1971-2, Cmd. 4811.

[52] P.L. Payne The Early Scottish Limited Companies, 1856-1895 (Edinburgh, 1980); J. Foreman-Peck 'Seedcorn or Chaff? New Firm Formation and the Performance of the Interwar Economy', Economic History Review, 38, 1985.

mid-1950s in which many locally-based enterprises disappeared and were replaced by companies based outwith Fife.

The second half of the thesis - Chapters Four to Six - attempts to explain this pattern of development. It does this by considering developments internal to firms: growth, survival and decline were the result of the policies adopted; explaining them involves examining those policies and the decisions which led to them. An emphasis on the significance of decision-making within businesses is central to much recent work on business history. Most studies, however, have been of individual companies or of firms in the same industry. Inevitably, the focus is on the role played by individuals or on factors specific to that industry. Limitations are encountered when attempts are made to extrapolate from individual examples to more general trends. This becomes evident when the literature on one major theme in business history is considered: the debate about Britain's economic decline and the role, if any, of 'entrepreneurial failure'. As Payne acknowledges, it is 'extremely difficult to perceive glaring errors from the records of individual firms . . . all too often the inquirer is forced to conclude that, with the information apparently available to the firms themselves, major decisions seem to have been perfectly rational in the context of future profitability' [his emphasis].[53] Thus, many studies of single firms have indeed ended with conclusions close to Campbell's on the North British Locomotive Co. Ltd.:

> To suggest the Company should have acted otherwise [than wait for an increase in demand] would be to suggest it should have escaped from the limitations of its time and place and have acquired the wisdom of hindsight granted only to latter-day historians.[54]

It is here that a comparative approach is most useful. If parallels exist in the decisions reached by companies, then the individual strengths and weaknesses of businessmen are perhaps of less significance - or at least no more significance - than the framework in which decisions are made. This thesis accordingly seeks to compare the policies of different firms in an

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[53] P.L. Payne 'Entrepreneurship and British Industrial Decline' in B. Collins and K. Robbins (eds.) British Culture and Economic Decline (London, 1990), p. 28.
[54] Campbell Rise and Fall, p. 218.

attempt to find reasons of the common pattern of survival and decline identified.

To a certain extent, common patterns can be attributed to a shared environment. The dramatic fluctuations in the economic climate in the first half of the twentieth century were faced by all businessmen, as were the emergencies of two world wars. Although the impact of the slump of 1920 and the depression of the early 1930s varied from industry to industry, few were unaffected. A secret government report on the situation in 1921 paints a picture of 'unrelieved blackness' across Scotland's Central Belt in which 'it is difficult to pick out an industrial occupation as being principally affected by unemployment: almost all are in bad condition'.[55]

Another aspect of the environment which emerges strongly from this thesis is the importance of the shared legal framework in which businesses operated. Broadberry and Crafts have recently emphasized the importance of permissive British legislation on anti-competitive practices in slowing the rate of exit from business in the 1930s.[56] In a similar way, legislation on limited liability and on financial disclosure in the first half of the twentieth century strengthened the position of boards in their relations with shareholders, including family members. Hannah describes the first half of the twentieth century as 'a golden age of directorial power' and it is argued here that this legal environment was an important contributory factor in explaining the ability of companies to survive over time.[57]

But how an environment is perceived is also coloured by the goals and values of the decision-makers. It is here, of course, that the debate about the nature of British entrepreneurship has become most heated.[58] Perhaps the most controversial contribution has been that of Wiener with his argument that British growth was retarded by an 'anti-industrial culture'

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[55] Quoted in I. Levitt 'Scottish Poverty: The Historical Background' in G. Brown and R. Cook Scotland. The Real Divide (Edinburgh, 1983) p. 68.

[56] S. Broadberry and N. Crafts 'Britain's Productivity Gap in the 1930s: Some Neglected Factors', Journal of Economic History, 52, 1992.

[57] L. Hannah 'Takeover Bids in Britain Before 1950: An Exercise in Business "Pre-History"', Business History, 16, 1974, p.77.

[58] For the debate on 'entrepreneurial failure', see P.L. Payne British Entrepreneurship in the Nineteenth Century (2nd edition, London, 1988); Payne 'Entrepreneurship and British Economic Decline'.

which devalued capitalist values and from which 'industrialists themselves were far from immune'.[59] Arguments of such a nature are, of course, very hard to disprove, but the most useful contributions to the debate have perhaps come from those who have questioned the assumptions about British culture upon which it is based. The extent to which Britain's wider elite was imbued with capitalist values even in the late eighteenth and early nineteenth centuries has been highlighted, and the continuity of cultural values between the period of Britain's industrial greatness and decline has also been stressed. Others have compared the cultural values and educational background of Britain's business elite with those of their foremost foreign competitors and found differences to be less significant than imagined.[60] What is also open to question is the extent to which, even if businessmen did possess 'gentlemanly' or 'antiindustrial' values, it influenced their business decisions. As Coleman points out when discussing the impact of a public school education on business leaders, 'business decisions, though not necessarily all other decisions, [might] have been the same whatever the upbringing of those making them'.[61] Business decisions need to be considered in their own right and, accordingly, this thesis confines itself to the examination of businessmen as businessmen.

A more focussed critique of British businessmen has come from Chandler and two other American historians, Elbaum and Lazonick. Chandler focuses on the rise of managerially-run companies in America and argues that such enterprises are more likely to pursue long-term growth than the family-dominated businesses which were so prevalent in Britain.[62] For Elbaum and Lazonick, the cause of Britain's relative economic decline lies in 'a matrix of rigid institutional structures' which had developed during the nineteenth century and which subsequently retarded the necessary development of large-scale capitalism. In particular, they single out an

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[59] M. Wiener English Culture and the Decline of the Industrial Spirit, 1850-1980 (London, 1981), p. 159.

[60] K. Robbins 'British Culture versus British Industry' in Robbins; S. Pollard ' Reflections on Entrepreneurship and Culture in European Societies', Transactions of the Royal Historical Society, 40, 1990; H. Berghoff and R. Möller 'Tired Pioneers and Dynamic Newcomers? A Comparative Essay on English and German Entrepreneurial History, 1870-1914', Economic History Review, 47, 1994.

[61] D.C. Coleman 'Gentlemen and Players', Economic History Review, 26, 1973, p. 110.

[62] Chandler Scale and Scope, esp. pp. 12, 235-7.

'atomistic economic organization' of small, competitive, often family-owned firms.[63]

Chandler, Elbaum and Lazonick are surely right to point to the importance of the structure of industry and of the goals pursued by businessmen. What is more open to question is the association they draw between family ownership and economic decline. As with the Wiener thesis, international comparisons have been used to argue that family capitalism was far more widespread than suggested and that other countries where it has been dominant were by no means unsuccessful.[64] Chapter Four of this thesis also considers the role of family capitalism and concludes that the differences between family-owned firms and other locally-based companies in the Kirkcaldy area should not be exaggerated. Both in terms of their survival rates and in terms of their internal structures, many parallels existed between family firms and the other locally-owned companies operating in the Kirkcaldy area. Although the evidence is limited, since the records left by firms tell us more about policies pursued than the reasons why they were adopted, this thesis argues that these policies suggest that businessmen both in family-owned and in other firms pursued a number of goals, including profit maximisation, but also survival in business and the retention of control. Chapters Four to Six use the Register of Company files and the records of individual companies to explore this in terms of business ownership and control, and in terms of the production and financial policies pursued.

Ownership and control are clearly central to any consideration of business policy. Chapter Four looks at the impact of limited liability and argues that it permitted family-owned and other companies to overcome some of the causes of instability which had reduced firm longevity in the nineteenth century, without loosening the control exercised by firm leaders. This was true in both family-owned companies, where ownership was dispersed among the descendants of the firm founders, and in other locally-owned companies, where the relationship which existed between boards and

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[63] B. Elbaum and W. Lazonick 'An Institutional Perspective on Britain's Decline' in Elbaum and Lazonick, pp. 2-3.

[64] See R. Church 'The Family Firm in Industrial Capitalism: International Perspectives on Hypotheses and History' in G. Jones and M. Rose (eds.) Family Capitalism (London, 1993).

shareholders allowed firm leaders, many of whom had roots in family enterprise, to build up similar board and management structures to those which pertained in family firms.

Chapters Five and Six look at two central aspects of business policy, production and financial management. Clearly, other areas of business strategy would also have repaid study. In particular, it is likely that both the management of labour and inter-firm cooperation represented important elements in business strategy. The decision not to explore them was partly related in the first case to the existence of a considerable literature on the subject.[65] Furthermore, the major sources used, including directors' minute books and other papers preserved by companies, provided surprisingly little information on either theme. Not only did this mean that it would have been necessary to explore further sources, but it also suggested that these issues may have been seen differently by boards than issues relating to production or finance. On the one hand, it is possible that they were perceived as part of the general environment in which firms operated and largely beyond their individual control. On the other, strategies may have been so taken for granted, that they occasioned little discussion.

What the investigation of production and financial policies revealed was the extent to which common patterns existed in the behaviour of business firms in the Kirkcaldy area. Extreme caution in the inter-war years gave way to more expansionary policies in the post-war years as boards struggled to balance opportunities and risks. The decisions reached are best understood in a framework in which the rewards of expansion and investment had to be weighed against the risks to control and survival which over-ambition - or too great caution - represented.

The conclusion looks at the implications of this emphasis on business decisions and goals and, in particular, relates it to the discussion of

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[65] See, in particular, J. Melling 'Scottish Industrialists and the Changing Character of Class Relations in the Clyde Region, c. 1860-1930' in T. Dickson (ed.) Capital and Class in Scotland (Edinburgh, 1982); K. Burgess 'Authority Relations and the Division of Labour in British Industry, with Special Reference to Clydeside, c.1860-1930', Social History, 11, 1986; A. McKinlay 'The Inter-War Depression and the Effort Bargain: Shipyard Riveters and the "Workman's Foreman", 1919-1939', Scottish Economic and Social History, 9, 1989; R.J. Morris and J. Smyth 'Paternalism as an Employer Strategy' in J. Rubery and F. Wilkinson (eds.) Employer Strategy and the Labour Market (Oxford, 1994).

'entrepreneurial failure'. It points out that during the inter-war years and into the 1950s, many businessmen in the Kirkcaldy area were successful in keeping their businesses afloat in what they saw as extremely difficult conditions. The period in which 'failure' occurred, in the sense that opportunities existed and were not taken, was probably restricted to a period in the years after 1945. More important, the conclusion questions the yardstick used to measure success. Once it is recognised that businessmen may have pursued a variety of goals, it becomes impossible to equate 'entrepreneurial failure' with a failure to achieve growth. More useful is to ask how successful businessmen were in achieving the goals they set themselves.

1.3 The Kirkcaldy Area - A Brief Profile

Fife was one of the few counties in Scotland which was not dominated by a single town. Dunfermline, Kirkcaldy, Cupar and St. Andrews each had (and have) their own hinterland. This study looks at the central part of the county, for which the burgh of Kirkcaldy was the centre. It covers the nine civil parishes of Burntisland, Kinghorn, Kennoway, Kinglassie, Kirkcaldy and Dysart, Markinch, Leslie, Scoonie and Wemyss and corresponds approximately to the area now covered by Kirkcaldy District.[66] The front map shows the area studied - a rough triangle extending from Burntisland to Leven along the coast and inland as far as Auchmuir Bridge where the River Leven enters the county. The River Leven is the only major river in the area. The country is rolling farmland, only reaching any height in the north-west corner of the area on the southern edges of the Lomond hills.[67]

Since the Middle Ages, Fife had been one of the major centres of population in Scotland and the coastal burghs of Burntisland, Kinghorn, Kirkcaldy, Dysart and Leven have a long history as centres of commerce. The inland areas, on the other hand, remained predominantly rural and

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[66] The parishes of Abbotshall, Dysart and Kirkcaldy were combined in 1901 to form one parish.

[67] The Fife volume of The Third Statistical Account of Scotland (Smith, The County of Fife), compiled in the years just after the Second World War provides a very full description of the County, its economy and its history, which has been used extensively in the following paragraphs. On Kirkcaldy, see also P.K. Livingstone A History of Kirkcaldy Covering the Years 1843-1949 (Kirkcaldy, 1955).

agricultural until the twentieth century. By the nineteenth century, Kirkcaldy had developed into the major town of the area and one of Scotland's largest burghs. In 1901, it was ranked as the eleventh largest burgh in Scotland, and in 1961, as the eighth.[68] During the course of the 60 years covered by this study, two new settlements were created in the area, both in response to the needs of the coal industry. The rapid development of the East Fife coalfield led local coal companies to build extensively in the area to the south of the mouth of the river Leven, and a new burgh called Buckhaven and Methil was created in 1891 out of several small villages. The settlement grew from 8,000 inhabitants in 1901 to 17,643 in 1931.[69] After the Second World War, plans were drawn up under the New Towns Act of 1947 for a settlement in central Fife close to the new Rothes pit. A site for Glenrothes was approved in 1948 and the first houses were completed in 1951.[70] By 1961, 3,171 houses had been built.[71]

Table 1.1: Population of Kirkcaldy Area

Census	1901	1931	1961
9 parishes	82,068	105,704	131,005
Kirkcaldy burgh	34,079	43,874	52,390
Buckhaven & Methil burgh	8,000	17,643	21,102
Fife	218,840	276,368	320,714
Scotland	4,472,103	4,842,980	5,178,490
9 parishes as % Fife	37.51%	38.25%	40.85%
as % Scotland	1.83%	2.18%	2.53%

Note: The figures for the burghs are not strictly comparable, since the boundaries of both Kirkcaldy and Buckhaven and Methil were changed during the period to take account of urban expansion.
Source: Census of Scotland, 1901, 1931, 1961.

Table 1.1 gives some details on the population of the area. As can be seen, in 1901, there were 82,068 inhabitants in the nine parishes, of which just over 40% lived in the burgh of Kirkcaldy. By 1961, the population had increased by almost 60% and a marginally lower percentage lived in the main town. In contrast, the population of Buckhaven and Methil rose from

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[68] Census 1961, Scotland, Vol. 1, Pt. 17, County of Fife (1964), p. 42
[69] Smith, pp. 552-3; Census 1951, Scotland. Report on the Fifteenth Census of Scotland, Vol. 1, Pt. 17, County of Fife (1954), p. 18.
[70] K. Ferguson A New Town's Heritage. An Introduction to the Story of Glenrothes (Glenrothes, 1982), pp. 55, 70.
[71] Glenrothes Development Corporation, Annual Report, 1960, p. 110.

9.74% in 1901 to 16.11% over the sixty years. All the other settlements had a population under 10,000 in all the censuses. Figures for the population of Fife and of Scotland and for the percentage which the nine parishes constituted of the larger areas have also been given. From these it can be seen that the population of the area grew faster than either that of Fife or that of Scotland during the first half of the century, presumably because of the area's greater prosperity.

At the beginning of the century, Burntisland, Kinghorn, Kirkcaldy, Dysart and Leven were all royal burghs with their own councils. The Local Government Act of 1929 divided burghs into two classes. In Fife, only Kirkcaldy and Dunfermline were classed as large burghs with responsibility for all local services. The smaller burghs ceded certain aspects of local government, including education, to the counties. Buckhaven and Methil became a small burgh (soon reputedly the largest small burgh in Scotland)[72], whilst Dysart was amalgamated with Kirkcaldy.

Fife was traditionally a stronghold of the Liberal Party. The two seats representing the area, Kirkcaldy Burghs and West Fife, returned Liberals in every election from 1885 to 1906. In the inter-war years, both seats were held at times by the Liberals, the Conservatives, Labour and the Communist Party; the last was particularly strong in the mining areas.[73] Moderate and Independent candidates continued to perform well in local elections into the post-war years, and it was only in the 1950s that Labour consolidated its grip on the area.

The Firths of Forth and of Tay long meant that the major routes into Fife were by sea, and each of the small burghs had its own harbour. By the nineteenth century, the harbour at Kirkcaldy, traditionally the major port, had declined in importance and had been replaced by Burntisland, which was the ferry port for Edinburgh and was also better placed to ship coal from the west of the county. Around the turn of the century, a new harbour was built at Methil and it grew rapidly into one of the chief ports on

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[72] Smith, p. 542.

[73] On politics in Buckhaven in the inter-war years, see I. MacDougall (ed.) Militant Miners. Recollections of John McArthur, Buckhaven, and Letters, 1924-26 of David Proudfoot, Methil, to G. Allen Hutt (Edinburgh, 1981).

Scotland's east coast, largely because of the coal trade. The railway network had first developed to link the ferry ports on the south and north coasts of the county. By 1900, bridges across the Forth and Tay brought the main East Coast railway line through Kirkcaldy on its way from Edinburgh to Dundee and Aberdeen. Branch lines linked Leslie, Leven and the coalfield areas to the main line. There was, however, no direct link from the Kirkcaldy area to Glasgow and the West. By the inter-war years, local businessmen and politicians were anxious to see a road bridge built across the Forth,[74] but the bridge was only completed in the 1960s. For the period studied, therefore, road links to the rest of the country remained poor.

The county of Fife was industrialized rather later than the West of Scotland. The traditional staple of the county was linen and, by the second half of the nineteenth century, Fife was, after Angus, the main centre of the industry in Scotland.[75] After 1900, however, although it remained a significant employer, the industry was in decline as consumption switched to cotton and later man-made fibres. It was also subject to violent fluctuations in demand, although these affected the fine linens produced in Dunfermline more than the medium grades of the Kirkcaldy area.[76]

Coal had long been mined in Fife, but the last decades of the nineteenth century saw a massive expansion of the industry. The greatest increase took place at the eastern end of the coalfield in the area between Leven and Dysart. Cunningham lists 15 pits in the area in 1906, employing over 5,500 miners.[77] This rapid expansion was related to the discovery of new seams and to improvements in mining technology which made it possible to exploit coal at a greater depth. In contrast to the West of Scotland, much of the coal was exported to England and Northern Europe.[78] The Fife coal companies were unusually large by Scottish standards and were pioneers in the use of modern machinery. Although the Fife coal companies by no

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[74] See, for instance, Kirkcaldy Chamber of Commerce Minute Book IV, Minutes of AGM, 9.4.1936. The minute books are in the possession of the Chamber of Commerce.
[75] A. Warden The Linen Trade, Ancient and Modern (London, 1864, reprinted 1967), pp. 476-9.
[76] W.H.K. Turner 'The Textile Industries of Dunfermline and Kirkcaldy, 1700-1900', Scottish Geographical Magazine, 73, 1957, p. 132.
[77] Cunningham Mining in the Kingdom of Fife (Leven, 1907), pp. 26-30.
[78] Slaven 'Extractive Industries', p. 9.

means escaped the problems of the industry in the inter-war years, they remained amongst the largest and most profitable in Scotland. In the post-1945 period, when major attempts were made to increase production in Scotland, great hopes were placed in the East Fife coalfield. A number of new pits were planned, including the ill-fated Rothes pit, which ran into serious technical problems and was closed in 1961 after massive losses. Other pits, however, were far more successful and coal-mining remained an important part of the local economy into the 1980s.[79]

The third major industry of the area was the floorcloth and linoleum industry which developed in the mid-nineteenth century. A series of technical improvements led to rapid expansion at the turn of the century. Kirkcaldy, together with Lancaster, was one of the two major centres of this industry and was responsible for somewhat more than a third of British production. Linoleum continued to enjoy buoyant demand into the 1960s and remained a mainstay of the local economy.

Table 1.2: Employment by Industry - 1921 - Kirkcaldy area (incl. burghs)

Industrial Order	Number employed	% of total
I & II Fishing & Agriculture	2090	4.81
III Mining & Quarrying (mostly coal)	15663	36.04
IV to XII, XIV All Industry	13430	30.91
VI Metals, Machines etc.	2949	6.79
VII Textiles	3431	7.90
XIV Other (mostly lino)	3083	7.09
XIII Construction	994	2.29
XV to XXII Services & Other	11277	25.96
Total employed	43454	100.00

Note: Figures have been compiled from those for the burghs of Kirkcaldy and Buckhaven and Methil and for the County District of Kirkcaldy, including the smaller burghs.
Source: Census of Scotland 1921.

If coal, linen and linoleum were the main employers throughout the period, other industries were also significant. Some of these, such as engineering and lithography, arose to meet the demands of the region's three main industries, others were largely unconnected. The Leven valley was home

[79] On coal-mining in Fife and, in particular, the saga of the Rothes pit, see R. Halliday The Disappearing Scottish Colliery (Edinburgh, 1990), esp. Ch. 3.

to a number of paper companies, three of which are still in operation today. Kirkcaldy produced furniture, ropes, carpets, milling machinery, flour and pottery; Burntisland, ships and alumina; the Levenmouth area, whisky, golf-clubs and animal feedstuffs. Towards the end of the period, Glenrothes developed as a major industrial centre, attracting, in particular, electrical engineering firms.

Some indication of the relative importance of different industries can be gleaned from the census figures on employment. Unfortunately, most censuses only give employment figures for Kirkcaldy burgh and for the county as a whole. However, in two cases, it was possible to calculate figures for the approximate area covered by this thesis. In 1921, employment figures for the county are sub-divided by County District, and by adding together figures for Kirkcaldy County District and for the relevant burghs, it was possible to derive figures for the precise civil parishes of interest. In 1961, the census gives figures from a 10% sample of employment in the burghs of Kirkcaldy and Buckhaven and Methil and the new town of Glenrothes, which together included just under 60% of the inhabitants of the area of interest. The figures for these two years are set out in tables 1.2 and 1.3.

Table 1.3: Employment by Industry - 1961 - Burghs of Kirkcaldy and Buckhaven and Methil and Glenrothes New Town

Industrial Order	Number employed (10% sample)	% of total
I Fishing & Agriculture	38	1.27
II Mining & Quarrying (mostly coal)	261	8.68
IV to XVI All Industry	1165	38.73
V-IX Metals, Machines etc.	130	4.32
X Textiles	128	4.26
XVI Other (mostly lino)	427	14.20
XVII Construction	227	7.55
XVIII to XXIV Services & Other	1317	43.78
Total employed	3008	100.00

Source: Census 1961, Scotland.

Although the two tables are not comparable because of changes in the employment categories between censuses and because they do not cover the same geographical area, they indicate the importance in both years of

coal-mining (the 1961 figures exclude, of course, the smaller mining villages of Wemyss and Markinch parishes) and of employment in industry. Among industrial categories, textiles, other (mostly linoleum), and the broad metal and machinery categories were largest in both years. Although employment in the service sector obviously grew dramatically between the two dates, in 1961 it was still smaller than mining and manufacturing combined.

Census data is not ideal for exploring the structure of industry at a local level and Chapter Three is able to give far greater detail on the development of the industrial structure of the Kirkcaldy area. First, however, Chapter Two explores the sources and methods used to compile the data used.

CHAPTER 2. METHODOLOGY: MAPPING THE BUSINESS STRUCTURE OF INDUSTRY

2.1 Introduction: A Demography of Enterprises

Collecting accurate data on the business structure of industry - the number and size of enterprises, their distribution between industries, their ownership and assets - is surprisingly difficult even for the comparatively recent past. What could be the most useful source is unavailable: censuses of production were carried out at irregular intervals from 1907 on, but the returns on which they were based were confidential and have probably been destroyed,[1] and the summaries published were carefully constructed so that details of individual firms could never be deduced.[2] As a result, mapping the structure of industry is a process of piecing together evidence from the different sources available, a process which has often been likened to human demography. Hudson talks of exploring 'the birth and death of companies', Payne of researching their 'vital statistics'.[3]

Using the language and concepts of human demography to describe the life-cycle of business experience does provoke interesting questions on the similarities and divergences between enterprise 'life-cycles' and human ones - do all firms start small? Is death inevitable? It also draws attention to the methods used by human demographers. Wrigley and Schofield have argued that:

> The demographic characteristics of a population are most easily calculated where regular censuses are taken and there is continuous vital registration. The fuller the information in both sources, the more elaborate the range of measures that can be employed. Where one source is available but the other is not,

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[1] C. Shaw writes in 'the Large Manufacturing Employers of 1907' Business History, 25, 1983, that the returns are permanently withheld and probably in an unusable condition. In answer to my enquiry, the Public Record Office informed me that they were 'routinely destroyed'.

[2] Great care was taken to prevent the statistics inadvertently revealing details of individual firms. Where an industry was small, totals were not broken down and were followed by the footnote: 'In order to avoid the possible disclosure of particulars relating to certain firms, figures can only be shown for Great Britain as a whole'.

[3] J. Hudson 'The Birth and Death of Firms in England and Wales During the Inter-War Years' Business History, 31, 1989; P. Payne The Early Scottish Limited Companies, 1856-1895 (Edinburgh, 1980); see also P. Jobert and M. Moss (eds) The Birth and Death of Companies (Carnforth, 1990).

there is apt to be greater difficulty in measuring fertility and mortality accurately.[4]

Most work on the demography of enterprises has been based on only one of the two types of source they describe - either sources such as town or business directories have been consulted, which make it possible to measure the population of a certain type of enterprise, or sources such as the records of company registration have been used to chart their vital statistics.

It will be argued here that both types of source exist for early twentieth-century Scotland. On the one hand, valuation rolls provide an extremely accurate record of the population or 'stock' of manufacturing enterprises. This source can also be used to gain a rough idea of the relative size of units. On the other, the files collected by the Register of Companies give 'life-history' details of the increasing proportion of firms which were incorporated. It will be noted immediately that what the two sources are measuring is not identical: whilst the valuation rolls list assets and are therefore a measure of the economic significance of enterprises, the details provided by the Register of Companies record their legal history. If there are parallels here to the dichotomy in human demography between 'real' events and their legal registration (eg. birth and baptism), there are also real differences. Whilst for the human demographer, it is clear that the legal events of birth and death registration result from 'real' occurrences, the business historian faces the problem that the key events of the life-cycle of the firm, indeed the firm itself, only exist by virtue of legal definition. It is also the case that a firm may enjoy one of several different legal statuses, or may switch from one to the other. Moreover, it may exist only as a legal entity and hold no productive assets. In short, the legal events in the life of an enterprise are not simply conditional on the occurrence of 'real' ones.

As will become apparent, this does create problems for exploring the demography of enterprises. Because of the relatively close correlation between the economic and legal identity of firms in early twentieth-century Scotland, these problems are not insurmountable - as they would be for a

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[4] E.A. Wrigley and R.S. Schofield The Population History of England (London, 1981) p. 192.

later period when legal identities changed more rapidly. In this situation, starting from one source which relates to the economic identity of firms and one which relates to their legal one is both to a certain extent inevitable and does possess advantages. It has already been noted that firms only enjoy a 'life' because they have a legal existence: it would be impossible to explore the life-cycle of businesses if we ignored their legal framework. Furthermore, by using a stock based on the possession of tangible assets, we are able to concentrate on that sub-set of all companies which are engaged in real economic activity.

The rest of this chapter will explore how these two sources have been used to map the structure of manufacturing and coal-mining industry in the Kirkcaldy area of Fife. The first section will look at the use of valuation rolls as a census of enterprises, and how this source can be checked and supplemented from other sources and, in particular, directories. It will also argue that, despite major problems, the rateable values given in the rolls do represent a rough guide to the size of businesses. The second half of the chapter will explain how the records of the Register of Companies were used to create biographies of incorporated companies and explore the other sources which were used to acquire similar information on those firms which remained unincorporated or where the Register of Companies file was unsuitable or unavailable.

2.2 Valuation Rolls as a Census of Manufacturing Industry

Valuation rolls were the name given in Scotland to the lists of land and buildings used for determining rates and, until 1918, for making up the electoral register. The system was established under the Lands Valuation (Scotland) Act of 1854, and survived, according to the standard textbook on the Scottish rating system, 'with few amendments of any far-reaching consequence' and 'no alteration in the basic principles which it established', until the Valuation and Rating (Scotland) Act of 1956.[5] Although the 1956 Act did make some significant alterations to the way properties were assessed, and these will be discussed below, 'lands and heritages', to use the terminology of the legislation, continued to be

[5] J.P.H. Mackay, J.J. Clyde, and J.A.D. Hope Armour on Valuation for Rating (4th edition, Edinburgh, 1971) p. lxvi.

recorded and assessed until the abolition of rates in the 1980s. Valuation rolls therefore provide a record of real estate holding for a period of over 130 years.

The valuation rolls contain a brief description of each property, including its location, the names of the owners, the tenants and the occupiers, and a figure for the rateable value of the property.[6] The 1854 Act laid down that the rateable value should be based on rents: 'in estimating the yearly value of lands and heritages under the Act, this same should be taken to be the rent at which, one year with another, such lands and heritages might in their actual state be reasonably expected to let from year to year'.[7] All land and buildings, with the exception of public roads, were entered in the roll, although the 1956 Act excluded agricultural land.[8] Minerals and mineworkings were included, as were properties which had no rateable value, such as, for instance, unused factory buildings, which were recorded as 'empty' and with no value attached.[9] The 1854 Act also established that 'machinery fixed or attached' should be included, a definition which was refined by an Act in 1902 and by various court cases.[10] The rolls were revised annually according to a strict timetable and by an independent assessor who used the services of professional valuers to assist him.[11] They were open for inspection and an appeals procedure existed.[12]

It will be seen that the valuation rolls possess definite advantages for the historian interested in obtaining figures on property-holding which can be compared over space and time. The rolls were virtually all-inclusive. Although until 1930 there were a large number of rating authorities, the lists were compiled to a standard formula. They were regularly updated. Above

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[6] The term rateable value has been used throughout to mean the gross 'yearly rent or value' as given in the valuation roll. It was used in this sense in the valuation rolls until the derating acts of the 1920s. Thereafter the term was used for the net value after derating on which rates were levied. The gross value was then termed 'gross annual value' in the roll. It was felt, however, that to change the terminology used depending on the date would unnecessarily complicate the text.

[7] Land Valuation (Scotland) Act, 1854 (17 & 18 Vict. c.91.) Article 6.

[8] C.W.Graham Guest The Law of Valuation in Scotland (Edinburgh, 1930), p. 18-45; Mackay et al, p. 128.

[9] Mackay et al, p. 95-101, p.77.

[10] Ibid, p. 103-118.

[11] For an example of the procedure of valuation see the appeal by Smith, Anderson & Co. Ltd. Court Record, Valuation Appeals Court, Cupar, 24.9.1920.

[12] Graham Guest, Ch. 1; Mackay, chs 1-5.

all, they were open to challenge, and two parties had a strong interest in correcting any inaccuracies. On the one hand, ratepayers suffered if their properties were inaccurately recorded or overvalued; on the other, for the rating authority, as large a rateable base as possible meant lower rates. There is every evidence that ratepayers, especially large ones, took a close interest in the proceedings of the County Assessors. To give but one example, the board of The Burntisland Shipbuilding Co. Ltd. discussed the progress of revaluation in 1961 on several occasions, obtained figures for comparison from other shipyards, and hired counsel to discuss action to be taken.[13]

In view of these merits, it is not surprising that valuation rolls and their English equivalent, rate books, have been used by a number of historians as a source of data on property. In Scotland, Gordon has used valuation rolls to collect data on housing and status areas in Edinburgh, whilst Morgan and Daunton have used the 1900/1 valuation roll to explore the housing market in Glasgow at the turn of the century.[14] Timmins, Lloyd-Jones and Le Roux, and Lewis and Lloyd-Jones have used nineteenth-century rate books to map the structure of particular English industries.[15] However, apparently no previous attempt has been made to use Scottish valuation rolls to explore the structure of industry.

The following section will explain how this study uses valuation rolls for the purpose of collecting data on manufacturing and coal-mining enterprises in the Kirkcaldy area, and explore some of the issues raised by the methodology.

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[13] SRO GD313/1/2 The Burntisland Shipbuilding Co. Ltd., Directors' Minutes Book, 15.7.59, 3.10.60, 26.6.61. The company minute books consulted rarely had page numbers, but entries were always in chronological order and were dated. Footnote references, therefore, are to the dates of entries.

[14] G. Gordon 'Rateable Assessment as a Data Source for Status Area Analysis' Urban History Yearbook, 1979; N.J. Morgan and M.J. Daunton 'Landlords in Glasgow: A Study of 1900' Business History, 25, 1983.

[15] J.G. Timmins 'Concentration and Integration in the Sheffield Crucible Steel Industry', Business History, 24, 1982; R. Lloyd-Jones and A.A. Le Roux 'Marshall and the Birth and Death of Firms: the Growth and Distribution of Firms in the Early Nineteenth-Century Cotton Industry', Business History, 24, 1982; M.J. Lewis, and R. Lloyd-Jones 'Rate Books: a Technique for Reconstructing the Local Economy' The Local Historian, 17, 1987.

2.2.1 Collecting Data from the Valuation Rolls

Data was collected from every tenth annual valuation roll from that of 1900/01 to 1970/71, for the 9 civil parishes of Burntisland, Kennoway, Kinghorn, Kinglassie, Kirkcaldy and Dysart, Leslie, Markinch, Scoonie and Wemyss.[16] Parish boundaries were used, since, unlike burgh boundaries, these remained virtually unchanged over time. Details of every manufacturing premise and coal-mining entry were recorded. Totals per enterprise were achieved by adding together the figures for all premises occupied by a single company. It was assumed that if a company name appeared in connection with two different properties, it was the same company. Limited companies, of course, were prevented by law from adopting a name already in use and it seems improbable that two unlimited companies, however small, would operate in the same location under identical names.

Since it is production and not property ownership which is central to this study, properties were recorded by occupier and not by proprietor. In practice, virtually all manufacturing premises of any size were owned by the occupier. Where properties were rented, it was nearly always the case that it was only the land which was rented and, from 1895 on, the actual buildings and machinery were entered separately as 'tenants improvements'. In these cases, the value of the land and of the buildings were added together. Coal-mining companies were in a slightly different situation. Minerals rather than workings were assessed,[17] and since the minerals were usually rented and not owned outright, most rateable property used by mining companies was rented.

Distinguishing manufacturing premises from others proved to be less difficult than might have been expected. During the 1920s, a number of Acts were passed in an attempt to reduce the burden of local taxation on agriculture and industry, in a process known as 'derating'. The Rating (Scotland) Act of 1926 and the Rating and Valuation (Apportionment) Act of

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[16] In 1901, the civil parishes of Abbotshall, Dysart and Kirkcaldy were combined to produce the new civil parish of Kirkcaldy and Dysart. In the 1900/01 valuation roll, therefore, 11 parishes were surveyed.
[17] Mackay et al, p. 95-9.

1928 required the assessors to indicate the classification of properties in the Valuation Roll. The first of these Acts remained in force until the 1960s and introduced separate classifications for mines, several sorts of industrial undertaking, public works, and agricultural lands. The second, which was only phased out in the early 1970s, introduced in addition a threefold classification to distinguish 'industrial', 'freight-transport' and 'agricultural' land. Thus, from the mid-1920s on, manufacturing premises were distinguished in the valuation rolls and the classification, like the entry, was subject to contemporary appeal and review. Since the reductions available under the two Acts were considerable, the classification given to premises was the subject of frequent litigation.

These classifications were used in analysing the valuation rolls. For the surveys of rolls of 1930/1 through to 1960/1 the classifications of the 1926 Act were used. This defined industrial properties as 'mills, manufacturing works, or premises of a similar character used wholly or mainly for industrial purposes'.[18] This description was further defined by the courts to mean premises 'where active production or manufacture takes place' and to exclude premises 'where a finished article goes through some ancillary process which had to be performed to put the article on the market'.[19] Over time, the originally restrictive interpretation of the Act was relaxed by the courts, and bakehouses, bonded warehouses and properties belonging to the Cooperative movement were recategorized as 'industrial'. To facilitate comparisons over time, however, this study used the strictest definition, that in force at the time of the 1940/1 valuation roll, throughout, and these border-line properties, which were easily identifiable, were consistently excluded from the surveys.

Although the focus of this study is the 1900 to 1960 period, the 1970/1 valuation roll was also surveyed, since the period around 1960 was discovered to be one of considerable change. The 1970/1 valuation roll was compiled after the 1926 Act had been repealed, and so the slightly broader definition of industrial property used by the 1928 Act was used as a starting point, and those properties described as workshops, which would not have benefited from derating under the 1926 Act, were then excluded.

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[18] Rating (Scotland) Act, 1926, Sec. 12 (2).
[19] Graham Guest, p.119.

For the first three surveys, no such classifications existed. Selection was therefore made on the basis of the description of the property alone. Every attempt was made to follow the classification used in the 1940/1 valuation roll. Properties described as 'works', 'factory', 'mill', 'foundry', etc. were included. Those described as 'workroom', 'workshop' or 'office' were excluded. In line with the various derating acts, properties apparently used primarily for storage purposes were also missed out. For larger properties, this distinction presented no problems, but among the smallest companies it was sometimes hard to distinguish properties which were genuinely used for manufacturing from workrooms attached to shops, and the accuracy of the method for exploring the smallest manufacturing enterprises is therefore reduced. For this reason, statistics relate to enterprises using property valued at more than £50 within the geographical area. The number of smaller enterprises was relatively limited. In the survey of the 1930/1 valuation roll (where 'derating' made it possible to identify them), 18 out of the 105 enterprises identified had total property valued at under £50.

The ten year gap between surveys may seem somewhat large to explore fluctuations in the rate of enterprise formation and dissolution. In defence, one of the most marked findings was the longevity of enterprises. Very few of the enterprises appeared in only one of the valuation rolls surveyed. For the six valuation rolls surveyed between 1910/1 and 1960/1, the proportion of enterprises occupying property worth more than £50 and appearing in only one of the surveyed valuation rolls varied from 1% for the 1940/1 valuation roll to 8% for that of 1960/1. Of these, even fewer had a lifespan of less than nine years. It is of course possible that this is entirely related to the years chosen and that surges of enterprise formation followed the survey years, only for these new entries to have been eliminated before the decade was finished, but this seems improbable. If this had been the case, one consequence would surely have been a large amount of factory space standing idle in the survey years and therefore marked in the valuation roll as 'empty'.

Finally, comparing figures over time required certain rules for deciding whether or not an enterprise was the same. This problem proved to be the most difficult one raised by the use of the valuation rolls for this purpose

and required establishing guidelines on what would be regarded as the essential identity of a firm. Penrose explains the problem: 'in practice the name of a firm may change, its managing personnel and its owners may change, the products it produces may change, its geographical location may change, its legal form may change, and still in the ordinary course of events we would consider it to be the same firm and could write the story of its "life"'.[20] It was decided here that three indicators would be used: enterprise name, location and product. If these were identical in successive surveys, the enterprise was assumed to be the same. For the product, of course, it was necessary to rely on the very rough guide given by the description of the premises in the valuation roll: it was assumed, for example, that a power-loom factory produced textiles, and a distillery spirits.

What this meant, essentially, was that if a business was carrying on the same trade in the same premises under the same name as in the previous survey, it was assumed that it was the same enterprise. Where minor changes in one of the three variables occurred, the following rules were followed. The addition of a new site to existing premises, or the closure of one of several productive facilities, were obviously not taken to affect the survival of an enterprise. In a small number of cases, name and product remained the same but there was a complete change in the site of production between surveys. In these cases, independent confirmation was sought that a shift of premises had indeed taken place, and where this was found, this was taken as evidence of the survival of the company. For instance, Lockhart confirms that the flour-milling firm of Hogarth moved from West Mills in Linktown to a modern mill beside the Kirkcaldy railway station early in the twentieth century.[21] There were no cases of a complete change of industry, and additions of related trades to an existing core activity were not held to affect the survival of the enterprise's identity.

Name changes were more complex. Minor changes in the name were not taken to break the firm's history. By far the most common of these was the addition of the word 'ltd.' on incorporation. Although this represented an important break in the legal identity of the firm, it was decided that it did not

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[20] E. Penrose The Theory of the Growth of the Firm (Oxford, 1959), p. 22.
[21] J.Y. Lockhart Kirkcaldy 1838-1938. A Century of Progress (Kirkcaldy, 1939), p. 16.

represent the dissolution of one enterprise and the creation of another, but simply a change in the legal form. It was certainly regarded thus by those involved.[22] In a very small number of cases, limited companies were dissolved and re-formed with a slightly different name. The most common practice was to add the date of the re-formation into the name. Thus the Boase Spinning Co. Ltd. became the Boase Spinning Co. (1920) Ltd. after a re-formation in that year. In these cases, again, it was decided that the continuity of the firm was unbroken. Finally, in the case of unincorporated partnerships, the name was sometimes changed when partners retired or new ones were admitted, although the practice was becoming increasingly uncommon. In these cases, the addition of '& Son' or 'Sons' was not taken to mark a break in the firm's survival, nor, more arbitrarily, was a change in which half or more of the surnames remained the same.

If the valuation rolls are the source on which the statistics on numbers of enterprises are based, a number of other sources were used as a cross-reference and, in certain cases, as a supplementary source of information. One cross reference was the 1:2500 Ordnance Survey maps which are detailed enough to indicate the site, names and often even the industries of all major factories. The editions of 1914, based on the revision of 1913 was compared to the surveys based on the 1910/1 valuation roll and the OS editions of 1959/60, based on the survey of 1948/50 and revised in 1954, were compared to the 1950/1 list. A second comparative source was descriptive accounts of industry in Fife. Of particular value were Bryson's Industries of Kirkcaldy and District, written in 1872, the various descriptions of South Fife parishes written by Cunningham in the early years of the twentieth century, the relevant sections of Oakley's two surveys of Scottish industry, written in 1937 and 1953 and the volume of the Third Statistical Account of Scotland on Fife written by Smith.[23] All of these sources

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[22] This becomes clear from the company histories produced by firms to mark a centenary or other anniversary. These invariably treat the history of the firm as an unbroken thread surviving any changes in partnership or legal structure.

[23] J. Bryson Industries of Kirkcaldy and District (Kirkcaldy, 1872); A.S. Cunningham Rambles in Scoonie and Wemyss (Leven, 1905), Kennoway and the Fringes of Markinch (Leven, 1906), Markinch and its Environs (Leven, 1907), Mining in the Kingdom of Fife (Leven, 1907), Upper Largo, Lower Largo, Lundin Links, Newburn (Leven, 1907), and Dysart, Past and Present (Leven, 1912); C.A. Oakley Scottish Industry Today (Edinburgh, 1937) and (ed.) Scottish Industry (Edinburgh, 1953); A. Smith The County of Fife (Edinburgh, 1952).

mention many of the major companies operating in Fife, and this data corresponded to that gleaned from the valuation rolls.

Another source which has been extensively used as a base source for exploring statistics on the life-cycle of the company were Post Office or town directories.[24] In terms of directories, Fife is not as well served in the twentieth century as more urban areas. No Post Office directory was produced, and other directories were only produced infrequently or for short periods. Three different directories which covered all or part of the Kirkcaldy area were identified, although the identical presentation of the information in the three directories suggests that they may well have been compiled from the same source.[25] In each case the manufacturing entries in the trades section of the directories were compared to the lists compiled from the valuation rolls. Thus the 1900 Macdonald's Directory was compared to the list compiled from the 1900/1 valuation roll, the 1931/2 Kirkcaldy Directory was compared to that based on 1930/1 valuation roll, and the Fife & Kinross Trade Directories for 1918, 1940 and 1960/1 were compared to the lists based on the 1920/1, 1940/1 and 1960/1 valuation rolls respectively. In each case there were considerable divergences between the directories and the valuation roll lists, with each source containing up to a third of names not appearing in the other source. The valuation rolls were checked to see if any of the names which appeared in the directories could be located and most were identified. One reason for divergences was that when a company was taken over by another one, but continued to trade under the old name, the directories listed the trading name only, whilst the valuation roll gave precedence to that of the owning company. A more frequent reason was that the enterprises concerned were found to own shops rather than manufacturing premises. Here the vague nature of the directory categories were to blame, with 'Engineers', for instance, including both shops selling electrical equipment and large manufacturing establishments. The divergences in the other direction - names appearing in the valuation roll but not in the directories - were

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[24] See, in particular, G. Shaw British Directories as Sources in Historical Geography (Historical Geography Research Series, 1982) and articles by S. Nenadic and by J. Carroll, N. Morgan and M. Moss in P. Jobert and M. Moss (eds.) The Birth and Death of Companies (Carnforth, 1990).

[25] Macdonald's Scottish Directory and Gazeteer (Edinburgh & London), Fife and Kinross Trade Directories (Edinburgh), The Kirkcaldy Directory (Kirkcaldy).

harder to explain. The 1931/2 issue of the Kirkcaldy Directory, for instance missed over 20% of the manufacturing establishments on the list compiled from the 1930/1 valuation roll, including some major names.[26] Only in two cases can this be explained by the time gap. An even more striking example is the entry in the 1960/1 Directory for Burntisland which misses both the Burntisland Shipbuilding Co. Ltd. yard and the alumina factory owned by British Aluminium Co. Ltd. The two plants were not only the major employers, but physically dominated the town.[27] One is forced to the conclusion that, in Fife at least, directories are a less accurate source than valuation rolls. The reason for this probably lies with their purpose. Inclusion in the directories was voluntary and, since they were produced for reasons of trade, they would be of least interest to companies - such as shipbuilders and plants engaged in only one stage of a manufacturing process - which did not expect to sell to a local market.[28] The directories, however, were a useful supplementary source of information for this study, particularly on the trade pursued by enterprises.

Although, of course, not a proof of accuracy, cross-checking confirmed the impression that the valuation rolls are a highly reliable source for investigating the stock of manufacturing enterprises, and particularly medium-sized or large ones, in Fife in the twentieth century. The next section will consider one further possible advantage of their use: the information they give on the size of companies.

2.2.2 Rateable Value as a Measure of Company Size

Mapping the structure of industry requires knowledge of more than the number of enterprises: in particular, the relative size of firms is clearly of crucial importance. There is, however, no one accepted measure of company size. The problems become apparent when surveys of top-ranking companies are considered. Surveys of Britain's or Scotland's largest companies, such as those produced by The Times and The Scotsman, use a range of indicators in an attempt to take account of such

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[26] The Kirkcaldy Directory 1931/2 (Kirkcaldy, 1931); VR 50/50.

[27] Fife and Kinross Trade Directory 1960 /1 (Edinburgh, 1960) p.36.

[28] For methods of compilation, see G. Shaw, p. 30; P.J. Atkins, 'The compilation and reliability of London directories' London Journal,14, 1989.

factors as turnover, profitability, market capitalization, and fixed assets.[29] For the historian interested in exploring the size of enterprises in the past, the problem is compounded by the limited information available. Data on sales or profits is only rarely available and alternative financial indicators are not without their problems. Payne used issued share capital as derived from the Stock Exchange Official Intelligence to produce his list of the largest British companies in 1905 and a similar indicator and source are taken by Scott and Hughes in their surveys of Scottish capital in the twentieth century.[30] Not only does the source exclude unincorporated and private companies, but the issued capital is an inflexible measurement and one which is likely to be biased in favour of certain industries. Increases in the size of the issued capital are a reflection of the need for capital and the possibility of raising it, rather than of the growth of the company, whilst reductions required the permission of the courts. Payne also points out that one result of his methodology is a bias in favour of industries with large fixed assets - and that his list contains a disproportionate number of brewing companies because of the number of tied houses they owned.[31]

An alternative method of measuring companies which, in view of these difficulties, has won increasing favour, has been in terms of employment. Shaw, Johnman and Jeremy have produced lists of Britain's largest enterprises for 1907, 1935 and 1955 on the basis of the number of workers employed.[32] Yet here too there are problems relating to both the methods and the data. As Shaw points out, 'just as Payne's list of large firms ranked by capital favours capital-intensive industries, so a list of enterprises ranked by employment favours labour-intensive ones'.[33] Furthermore, no consistent source for data exists. Shaw relies on a wide range of different surveys for her figures for 1907, some of them clearly more impressionistic than others, and admits that many of the figures are estimates or exclude

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[29] See The Times 1000, 1994 (London, 1993), p. 11; The Scotsman Business 300 Guide, The Scotsman, 14.12.1994.

[30] P. Payne 'The Emergence of the Large-Scale Company in Great Britain, 1870-1914' Economic History Review, 20, 1967; J. Scott and M. Hughes The Anatomy of Scottish Capital. Scottish Companies and Scottish Capital, 1900-79 (London, 1980). See in particular Appendix, pp. 266-70.

[31] Payne 'Large-Scale Company', pp. 529-31.

[32] C. Shaw; L. Johnman 'The Largest Manufacturing Companies of 1935, Business History, 28, 1986; D.J. Jeremy 'The Hundred Largest Employers in the UK in Manufacturing and Non-Manufacturing Industries in 1907, 1935 and 1955' Business History, 33, 1991.

[33] C. Shaw, p. 43.

part of the workforce.[34] Similar problems were encountered when data on employment was collected for the Kirkcaldy area: the only source to consistently provide information on numbers employed are the various parish descriptions by Cunningham for the pre-1914 period, but some of his figures are for total employed, some for manual labour, whilst others exclude women and adolescents.[35]

In view of these difficulties, it is not surprising that valuation rolls, or their English equivalent, rate books, have been seen as a possible source of information on company size. The rateable values provided by this source give what is apparently ratio data for the property held which, as we have seen, was universal, consistently collected and liable to verification. Ranking companies according to this data will obviously exaggerate the significance of industries which required heavy investment in buildings and fixed machinery, but we have seen that other available measurements also contain biases. It may be the case that the advantages of consistent and available data outweigh any disadvantages inherent in the indicator.

The most systematic use of rate books for ranking companies has been by Lloyd-Jones and Le Roux and by Lloyd-Jones and Lewis in their studies of the Manchester cotton industry in the early nineteenth century. Their conclusions are unequivocal. Lloyd-Jones and Le Roux compare rateable values to employment figures for 15 Manchester factories in 1815, and Lloyd-Jones and Lewis compare them to property valuations in 1812 and both find a high level of correlation.[36] On the basis of these figures, Lloyd-Jones and Lewis conclude that: 'we can confidently use RVs (rateable values) as a proxy for property asset valuation'.[37] In an article on their research methods, they point to the significance of their findings:

> For a realistic comparison of industrial structure, what is required is ratio data, which not only gives the order in which the categories fall, but also an estimate of the size of the categories. Rate books provide such data. . . . it is possible to

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[34] Ibid., p. 44.
[35] See footnote 23 for books by Cunningham. Dysart, pp. 49-54 and 94, illustrates the problems.
[36] R. Lloyd-Jones and A.A. Le Roux 'The Size of Firms in the Cotton Industry: Manchester 1815-41' Economic History Review, 33, 1980, p. 74; R. Lloyd-Jones and M.J. Lewis Manchester and the Age of the Factory (London, 1988) pp.26-7.
[37] Lloyd-Jones and Lewis, p. 27.

> place firms in specific size groupings and to construct a frequency distribution across the category sizes. The frequency distribution can then be compared over two time periods. From this comparison an estimate of changing industrial structure can emerge.[38]

Using valuation rolls in a similar way for Scotland in the first half of the twentieth century is complicated by two factors. Firstly, in Scotland, unlike in England, assessors had to take bona fide rents if they existed. Secondly, no general revaluation of all properties took place in Scotland until 1961/2. The rest of this section will examine the significance of these two factors and their implications for using rateable value as a measure of company size. It will be argued that the effect of these two factors is to significantly reduce the value of rateable values as ratio data for industrial properties, but that, nevertheless, in the case of manufacturing companies, it still provides a rough indicator of change in the size of individual companies over time and of the relative size of different companies in any year. The emphasis, however, must be on manufacturing, since the rates paid by coal-mining companies were assessed on a different basis and the figures are clearly not comparable. As previously indicated, it was minerals and not mine-workings which were assessed, so that, in a sense, it was the stocks rather than the fixed assets of these companies which were being valued. The result was to exaggerate the relative importance of mining companies. The total rateable values achieved by mining companies were consistently high - in 1910, for instance, four of the five mining companies present in the Kirkcaldy area were among the six firms with the highest total rateable values.[39] In this study, mining firms have been classified as holding property valued at more than £250, but no further reliance was placed on the figures.

* * *

After stating that rateable value should be based on the yearly rental value of lands and heritages, the 1854 Act went on to say that 'where such lands and heritages are bona fide let for a yearly rent conditioned as the fair annual value thereof, without grassum or consideration other than the rent,

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[38] Lewis and Lloyd-Jones, pp. 277-278.
[39] Figures calculated from VR50/30, 101/56.

such rent shall be deemed and taken to be the yearly rent or value of such lands and heritages in terms of this Act . . .'[40] As the Report of the Scottish Valuation and Rating Committee (Sorn Report) of 1954 noted, the Scottish system had led to serious distortions by the 1950s:

> The Rent Restriction Acts, the development of local authority housing in which rents are not determined on an economic basis, the regulation of shop tenancies, the organisation of great industries under nationalised boards, security of tenure for farm servants and the scarcity rents resulting therefrom, and the growth of government planning in general have all been quoted to us as illustrations of the extent to which free bargaining has disappeared from transactions in lands and heritages of all descriptions.[41]

Most of these factors tended to hold back any increase in rents, and the result was that rateable values changed little between the beginning of the century and 1960. So seriously did the Sorn Committee view these distortions that they recommended that the requirement to take actual rents if they existed be lifted, 'and that instead a system of valuing on hypothetical or fair rent should be introduced', as in England,[42] and this was done in the 1956 Act.

The impact of rent restrictions on industrial properties was indirect. Most factories were owner-occupied, and in the few cases where they were rented, any improvements to the property - and it was usually only the land which was rented - were assessed separately. Actual rent could therefore not be used to assess factories and two other systems were used. Under the 'comparative principle', which was commonly used for shops and small factories, premises were compared to similar ones elsewhere. In the case of larger factories, where few rented comparisons could be found, the 'contractor's principle' was used, in which the assessor based his valuation on an estimate of the cost of erecting the building.[43] Both these systems might have insulated the valuation of industrial properties from the distortions affecting the housing market. However, allowing commercial

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[40] Lands Valuation (Scotland) Act, 1854 (17 & 18 Vict. c. 91.) Article 6.
[41] Report of the Scottish Valuation and Rating Committee (Sorn Report), 1953-4, Cmd. 9244, p.20.
[42] Ibid., p. 22.
[43] For a description of the operation of these two principles before the 1956 Act, see Graham Guest, pp. 79-85.

valuations to rise whilst house valuations were virtually frozen would have shifted the rate burden from individuals to business, and, presumably because of this, commercial and industrial valuations were held down too. If anything, they appear to have been even more immobile. The 1956 Act, which lifted the need to use actual rents, required a general revaluation of all properties and this was done in time for the 1961/2 roll. The result was an upward revaluation for virtually all properties between the 1960/1 and 1961/2 valuation roll. In Kirkcaldy, the rateable value of industrial properties increased on average by a factor of 3.60. However, the increase in the total rateable value for the burgh of Kirkcaldy between the 1960/1 and 1961/2 lists was 2.04, and this was higher than the increase experienced by other large burghs.[44] The implication, therefore, is that industrial properties were on the whole even more undervalued than housing prior to the general revaluation of 1961/2.

The second factor reducing the reliability of the valuation rolls as a proxy for property values is that there was no general revaluation of all property until that ordered under the 1956 Act. Although alterations were made to the valuation of individual properties when they were materially changed, such adjustments did not take into account changes in the value of property caused by general deterioration, inflation, or changes in demand. Over time - and the system was in operation for over 100 years - important distortions were likely to result from such factors, and these could only have been ironed out by a total revaluation, as was legislated for in 1956. Prior to that Act, such revaluations depended upon the initiative of the local assessor's department. By the post-war period at least, revaluations appear to have become the norm in Scotland's larger cities. An article in The Chartered Surveyor at the time of the new Valuation and Rating (Scotland) Act of 1956, assumes 'revisions have been made since the war and it is fair to say that values of business premises in the cities and larger burghs, at any rate, are up-to-date . . .'.[45] Unfortunately this appears not to have been the case in Fife. The valuations of some industrial properties were updated in the early 1920s, but, according to Mr Thompson, the former County

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[44] The figures for Kirkcaldy burgh were derived by comparing those given in the 1960 and 1961 editions of the Rating Review.

[45] N.A. Millar 'The Valuation and Rating (Scotland) Act, 1956', The Chartered Surveyor, Nov. 1956, p. 228.

Assessor, no further such revisions were attempted in a systematic way until the 1956 Act required them.[46]

It is, therefore, clear that the confidence which Lloyd-Jones and Lewis show in rateable values for early nineteenth-century Manchester cannot be replicated when the figures for Kirkcaldy one hundred years later are considered. The distortion of the rental market and the absence of general revaluations mean that the figures cannot be seen as a precise measure of property values. However, this does not completely invalidate their use. It will be argued here that, despite their imprecision, the rateable values can be used, firstly, as a source of information on the development of companies over time and, secondly, as a rough indicator of the relative size of firms.

Table 2.1: Rateable Values at Tullis, Russell & Co. Ltd.

Year	Auchmuty Mill	Rothes Mill	Bleachfield	Power Station	Total
1900/1	1300	460	250		2010
1910/1	1605	650	280		2535
1920/1	2668	1149	482	2001	6300
1930/1	3900	1400		2600	7900
1940/1	4115	3960		2600	10675
1950/1	4565	4118		2600	11283
1960/1	13208	5607		10498	29313

Notes: The Bleachfield was passed to another company in 1924. All figures in £.
Source: SRO: VR101/46, VR101/56, VR 101/66, VR 101/76, VR 101/86, VR 101/96, VR 101/112.

Looking first at the figures for single companies over time, the rateable value is an indicator of material changes to fixed assets. Rateable values were changed to take account of improvements to property. Prior to the 1956 Act, the practice was to take the valuation appearing in the valuation roll for the previous year and add to it a figure for any improvements made during the course of the year. One can see this process by comparing the

[46] I am indebted to Mr Thompson for discussing the process of valuation in Fife in the 1950s and 1960s with me in June 1993. Needless to say, the account given here and the conclusions drawn from it are entirely my own.

process of modernization of the Tullis Russell & Co. Ltd. paper mills near Markinch, as described in Ketelbey's history of the company, with the changes in valuation as recorded in the valuation rolls, as presented in table 2.1. Ketelbey informs us that considerable improvements were made to Auchmuty mill during the decade between 1900 and 1910 and, as can be seen, most of the increase in that period is to that mill. The period just before and into the First World War also saw big improvements, including the construction of a new power house. This is entered in the 1920 valuation roll at £2,100 and forms a large part of the increase in that decade. The next era of large-scale investment was in the mid-1930s, and according to Ketelbey this time it was the other mill, Rothes, which saw most of the work. As can be seen, its valuation increased between 1930 and 1940 from £1,400 to £3,960, accounting for virtually all the company's increased valuation over the decade. Ketelbey tells of no major improvements in the 1940s, and the total valuation advanced merely from £10,675 to £11,282. The 1950s, however, saw the virtual reconstruction of the power house and Auchmuty mill, and their respective rateable values rose from £2,600 (unchanged since 1930) to £10,498 and from £4565 to £13,208 between 1950 and 1960.[47]

If Tullis Russell & Co. Ltd. is an example of a company which made regular improvements to its property, there are many which didn't, and this too is reflected in the valuation rolls. The company history of the firm of N. Lockhart & Sons lists various improvements to their premises and the installation of a new engine in the early years of the twentieth century, but mentions no further improvements in the next 30 years.[48] This is confirmed by a ledger belonging to the company, which has been preserved at Kirkcaldy Museum. Expenditure on machinery and fittings between 1900 and 1912 amounted to £8,220, but only £3,431 was spent between 1912 and 1930.[49] No expenditure on the buildings is recorded for the years between 1911 and 1928.[50] The rateable value of the manufacturing property belonging to this company rose from £320 in 1900 to £563 in

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[47] C.D.M. Ketelbey Tullis Russell, 1809-1959 (Markinch, 1967) pp. 186, 190, 192, 216, 277-8; SRO: VR 101/46, 56, 66, 76, 86, 96,112.
[48] Anon. N. Lockhart & Sons Ltd. 150 Years of Progress and Development, 1797-1947 (Kirkcaldy, no date).
[49] Kirkcaldy Museum 60/10 N. Lockhart & Sons Factory Expenses 1901-37, pp. 81, 94.
[50] Ibid. pp.96-102.

1920, but stayed at the latter figure in 1930.[51] A similar picture is presented by the firm of Lewis C. Grant, where the ledgers show no expenditure on buildings between 1928 and 1940, but £6,313 over the next decade.[52] The rateable value of this property rose from £100 in 1930 to £110 in 1940 and £190 in 1950.[53]

The valuation rolls were therefore sensitive to changes in the value of single properties caused by improvements. The only other reason for increases was because of a complete revaluation of individual properties, but these were by all accounts infrequent. Furthermore, even when they occurred, they were by no means random. As a case brought by the Guardbridge Paper Co. Ltd. before the Valuation Appeals Court in 1920 reveals, revaluations were most likely to be carried out on properties which were seen to be grossly undervalued. Lord Salvesen held that the valuation committee for Fife was entirely justified when on the appointment of a new assessor it was made a condition that he should reassess specified industrial properties:

> This peculiar condition indicated that the individual members of the authority in whose hands the appointment lay had formed an opinion that such subjects in the past had been under valued and that they were entitled to act upon this opinion.[54]

The rateable values also give a rough indication of the relative sizes of different companies in any one year. One way of exploring this is to compare the values given to properties before and after the first general revaluation required by the 1956 Act. The Act had legislated for a general revaluation to be undertaken every five years with the first to be completed in time for the 1961/2 valuation roll. It will also be recalled that the Act had removed the requirement to use bona fide rents if they existed, so this distortion too disappeared. By comparing the 1961/2 valuation roll with the last and therefore probably most imperfect valuation roll made under the old system, that of 1960/1 (which was one of the survey years), it is possible to measure the extent of the inaccuracies under the old system. Such a

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[51] VR 50/23, VR 50/40, 50.
[52] ULDA 45/2/17 Lewis C. Grant Ledger, pp.109-112.
[53] VR 50/50, 60, 70.
[54] Guardbridge Paper Co. Ltd v. The Assessor for Fife, Valuation Appeals Court, Cupar, 17.3.1920. The Opinion of the Judges p.3.

comparison was made for 114 industrial properties identified as the same in the 1960/1 and 1961/2 valuation rolls. To provide a comparison, the 1961/2 VR was also compared to that of 1970/1, the next of the survey years, and after another general revaluation. In this case the longer time span meant that only 67 properties could be identified as clearly identical (properties which had changed owner were excluded from the sample).

Table 2.2: Change in Rateable Values 1960/1 to 1970/1

	Period 1960/1-1961/2	Period 1961/2-1970/1
No. of companies in sample	114	67
Range of changes recorded	0.699-11.000	0.638-5.714
Mean average increase	3.596	1.629
Standard deviation	1.854	0.924
Standard deviation on 'unimproved' properties	1.373	0.586
Standard deviation excl. rented properties	1.243	

Table 2.2 summarizes the findings. As will immediately be seen, the range and standard deviation of increases between 1961/2 and 1970/1, despite the longer timespan, is much smaller than between 1960/1 and 1961/2. In both cases, of course, some deviation should be expected. Some properties were improved in each period and the increase registered may have reflected this rather than any inaccuracy in the figures. The third row of figures is an attempt to correct for this. In both cases, the top 5% of increases were excluded from the statistics on the assumption that these were most likely to be due to improvements. As can be seen, this led in both cases to a dramatic improvement in the standard deviation. Most of the variation, therefore, was accounted for by a few properties. In fact, 5% is likely to be a serious underestimate of the number of properties improved in the nine years from 1961/2 to 1970/1, and so the deviation for unimproved properties in this period should probably be reduced further still. In the earlier period, that from 1960/1 to 1961/2, a second factor also appears to have distorted the deviation and this relates to rented properties. It will be recalled that bona fide rents had to be taken if these existed. There were twelve rented factories in the sample surveyed, most of them in

the new town of Glenrothes, and both the firms themselves and Glenrothes Development Corporation had been complaining for some time that this meant their rents were considerably higher than those of comparable owner-occupied factories.[55] The revaluation of 1961/2 confirmed their arguments: of the seven properties which recorded a drop in their rateable value between 1960/1 and 1961/2, all were rented. A standard deviation has, therefore, been included in table 2.2 for a sample which excludes rented properties and it will be seen that the figure is still lower. Finally, it should be noted that the standard deviation was lower for larger properties than for smaller ones: of the 114 properties compared, the standard deviation for those valued at more than £1,000 in 1961 (a total of 52 properties) was 1.564 and for those worth more than £3,000 (32 properties) it was as low as 1.194.[56]

What these figures suggest is that whilst the pre-1961 valuations cannot be read as a precise guide to the value of properties, there was a rough relation between the rateable value and the value of the property. Furthermore, the larger the factory the more accurate the valuation was likely to be. This impression is confirmed when rateable values are compared to figures for employment. As already indicated, Cunningham provides data on employment for a number of companies in the Kirkcaldy area for the 1905-1912 period. These figures and the rateable values for 1910/1 are given in Table 2.3.

[55] See, for instance, GDC 10010 Glenrothes Development Corporation Minutes 13.5.1959.
[56] All these figures are derived from rateable values recorded in VR 101/112, 114, 116, 118, 152, 153, 154.

Table 2.3: Comparison of Data on Employment and Rateable Values, Ca. 1910

Name of company	Industry	Employees	RV 1910/1
Fife Hygienic Co.	Bedding	12	48
Wm Thomson	Netting	40	82.5
Methil Engineering Co.	Engineering	20	100
Robert Heron & Sons	Pottery	95	110
Thomas Harrow	Linen	100	130
J. & W. Stuart	Netting	70	163
M'Innes, Carmichael & Co.	Bleaching	95	169
Melville-Brodie Enginring Co.	Engineering	130	185
James Donaldson & Sons	Timber	75	200
Fife Forge Co.	Engineering	130	235
Henry Balfour & Co. Ltd.	Engineering	240	335
Thomas M'Laren & Son	Linen	250	400
J. & W. Dixon	Paper	100	475
John Main & Son	Linen	220	560
Boase Spinning Co. Ltd.	Linen	600	780
James Normand & Son Ltd.	Linen	500	1170

Note: All figures in £.
Sources: J. Cunningham Rambles in Scoonie and Wemyss (Leven, 1907), pp. 67-77, 189-190; Markinch and its Environs (Leven, 1907), pp. 83-85, 163; Dysart, Past and Present (Leven, 1912), pp. 49-54, 94; VR 50/30, 101/56.

The correlation (r-squared) between the employment figures and the rateable value is 0.79, which, although markedly lower than the 0.98 found by Lloyd-Jones and Le Roux for a similar comparison among cotton firms in Manchester in 1815,[57] still suggests a rough relation between rateable value and company size, particularly in view of the range of industries represented in table 2.3.

On the basis of this evidence, rateable value has been used in this study both as a rough indicator of the growth of firms over time and of their relative size. In compiling tables, firms have been classified in broad bands

[57] Lloyd-Jones and Le Roux, p.74.

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according to the rateable value of their property, the proportion of the total rateable value of manufacturing properties held by different sizes of firms has been explored, and the change in rateable values from decade to decade has been taken as an indicator of the growth, stagnation or contraction of firms. As explained above, coal-mining companies have been excluded from tables relating to the relative size of firms, except insofar as all mining companies were held to hold rateable property valued at over £250.

2.3 Exploring the 'Life-Cycle' of Enterprises through Standard Sources

Once a stock of enterprises had been identified through the valuation rolls, the next stage of research was to collect data on individual companies through standard sources. In this, attention was focussed both on such 'life-cycle' data as when enterprises were established, incorporated and liquidated, but also on other key features such as their ownership and control. A variety of sources were used, chief among them the Register of Companies (RoC) files. These files were compiled from the annual returns and other documents which limited liability companies were required to deposit with the three national Registers under the various Companies Acts from 1856 on. Obviously, this source was only of use for those companies which were incorporated. For those which were not, and for those among the limited companies where the RoC file could not be located or was not of use, a variety of other sources were used. The rest of this section will explore firstly the RoC files and the use which was made of them, and, secondly, these other sources.

In investigating the 'life-cycle' data and the ownership of enterprises, attention was concentrated on the large and medium-sized ones, that is those using property valued at £250 or over. There were 91 such enterprises which appeared in one or more of the surveys between that of 1900 and 1960. Of these, 73 were incorporated at some point in their existence. The number of large and medium-sized enterprises in each survey and how many of them were incorporated is set out in table 2.4.

Table 2.4: Total Number of Enterprises with Property with a Rateable Value of £250 or over.

Year	Number of enterprises	Number incorporated	Percentage incorporated
1900	47	19	40.4
1910	41	23	56.1
1920	52	31	59.6
1930	48	33	68.8
1940	47	40	85.1
1950	50	43	86.0
1960	49	44	89.8

Note: This table and tables like it in later chapters have been compiled from the sources and according to the methods described in this chapter. The main sources used have been the valuation rolls for the Burghs of Burntisland, Dysart, Kinghorn and Kirkcaldy and for the County of Fife (SRO: VR 11, 27, 48, 50 and 101) and the Register of Company files held at the Register of Companies, Edinburgh, or the Scottish Record Office (series BT2), although other sources described in this chapter have also been used.

2.3.1 Data from the Register of Companies files

The Register of Company files have long been identified as a major source of information on companies and have been used in a number of studies of contemporary business or of the history of individual companies.[58] In England the files of the vast majority of defunct companies have been stripped or destroyed,[59] rendering impossible the analysis of a systematic sample of companies in times past. In this respect, Scotland is, apparently, uniquely well-endowed, since the Scottish Record Office has preserved the files of all companies wound up before the 1960s and the Edinburgh Companies House has those of all other Scottish companies. The records held at the Scottish Record Office have been exploited by Professor Payne, in his pioneering The Early Scottish Limited Companies, 1856-1895, which remains the most significant study of these records. Payne, however, limited his survey to the files of defunct companies held by the Scottish Record Office and excluded from his survey of the first 2936 Scottish limited companies those which were still functioning in 1960, arguing 'it is strongly

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[58] See Payne Limited Companies, pp. 1-3; J. Armstrong 'An Introduction to Archival Research in Business History' Business History, 33, 1991. For studies of contemporary business using RoC files, see B. Tew and R. Henderson (eds.) Studies in Company Finance (Cambridge, 1959); D.A. Hay and D.J. Morris Unquoted Companies. Their Contribution to the United Kingdom Economy (London, 1984).

[59] Armstrong, p. 9.

suspected that the inclusion of full data on the 311 companies formed before the mid-nineties and still in existence in 1960 would not radically have altered the nature of the results'.[60] Therefore, the methodology adopted here means that this study differs from Payne's work in two respects. Payne, working from the RoC files alone, considers all companies, including abortive ones. In the present study, the use of the valuation rolls to identify companies which occupied industrial property made it possible to focus on manufacturing or coal-mining companies which actually engaged in the activity for which they had been established. Secondly, here the files of companies were traced either to the Scottish Record Office or to Companies House, so as to create as complete a survey of manufacturing companies operating in the Kirkcaldy area as possible.

Of the 73 larger companies which were, or became, incorporated between 1900 and 1960, the records of 52 were found. In five cases the records proved untraceable.[61] The 16 others - many of which only appeared in the 1960 survey - were companies such as The Distillers Co. Ltd, where the establishment in Fife was clearly only a small part of a much wider concern. In these cases, the decision was made not to use the RoC files to investigate them. The focus of this study was on Fife-based companies and, since the 'national' companies were often very large and with widely dispersed shareholding, the task of investigating them through the RoC files would have been both enormous and would have revealed only limited information about their activities in Fife. As will be explained below, a variety of other sources were used to obtain outline details on these companies. Finally, although it is reported that the Register of Companies preserves the records of existing companies in their entirety, in the case of a number of companies it was found that the files were not complete. The companies affected were among those with the most dispersed ownership, which meant that the annual returns could run to over 100 pages, and the losses probably date back to paper shortages in wartime. This affected another seven companies.

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[60] Payne Limited Companies, p. 2.

[61] The RoC files companies under their current names. This made identification difficult and in some cases impossible, when frequent name changes had occurred. In a small number of other cases the SRO or the RoC was unable to locate a file.

The RoC files contain a wide variety of information, steadily increasing over time as each successive Company Act extended the amount of information which had to be disclosed. Unfortunately for the historian, however, the 1907 Act introduced a distinction between private and public companies, which protected a large number of companies from revealing financial information until the second half of the century. A company's articles had to state whether it was a private company or not. Private companies were limited to fifty shareholders, excluding employees, and were prohibited from 'issuing invitations to the public to subscribe for its shares or debentures'.[62]

The information contained in the files can be analysed in terms of a number of categories. Firstly, companies were required to file documents relating to major events in the legal development of the company, such as incorporation, increases and decreases in the nominal capital, new share issues, and dissolution. The documents in this category varied little over time. They revealed a wealth of information about the companies, particularly in the early years, before the use of standardized formulas and language became commonplace. Chapter Four uses memoranda and articles of association to explore how founders saw their roles and their businesses. Also of particular interest are other documents relating to the foundation of companies, such as prospectuses, in the case of public companies, and agreements with the vendor, in the case of the many limited companies which had previously existed as unincorporated partnerships and where part of the sale price was paid in shares in the new company. The documents relating to the winding up of companies were also sometimes very full and these cases have been used to throw some light on the reasons for liquidation. When companies wished to reduce their share capital, they had to obtain the permission of the courts, and the records of these and a few other court cases are also contained in the files.

Some of the documents in this category have been used to produce statistics on the demography of Fife enterprises. Payne has been followed in taking the date the certificate of incorporation was granted and the date a resolution was passed to wind up the company as the moments at which

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[62] R.R. Pennington Partnership and Company Law (London, 1962), p. 208.

limited companies were 'born' and 'died'.[63] As Payne points out, after 1900 companies appealing to the public for subscriptions had also to obtain a trading certificate which was issued when a minimum number of shares had been subscribed, but since this survey only considers companies which successfully negotiated this hurdle, the earlier certificate was taken to be more significant. The dissolution of companies could be a long drawn-out affair depending in particular upon how easy it was for the liquidator to dispose of the assets. The process, however, was started by the resolution to wind up a company, and, as Payne argues, this represented a clear, 'unambiguous' and irreversible decision to dissolve the company.[64] Payne has also been followed in using the objects of the company to define their purpose.[65] Company memoranda always contained a third clause stating the objects for which the company was set up, and this was usually drawn very widely indeed, since the courts would prevent a company engaging in activities which were not covered by this clause. However, the courts did distinguish between main and ancillary objects, and so companies set out their main objects in the first paragraph or paragraphs of the clause.[66] In the case of the companies studied here, the purpose was usually straightforward, and none of the problems met by Payne in studying more ephemeral companies were encountered.[67] When the main activity changed, the articles were also changed. Thus, when after nationalization the Wemyss Coal Company Ltd. was transformed into a property company, its memorandum and even its name were changed too.[68]

A second category of documents were the annual returns which companies were required to make. These included details of the disposition of the share capital, a list of shareholders with the size of their holdings, and, from

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63 Payne Limited Companies, p. 5.
64 Ibid., p. 5-6.
65 Ibid., p. 8-11.
66 Pennington, pp. 58-60; D. Keenan Smith and Keenan's Company Law (6th edition, London, 1986) pp. 50-52.
67 Payne Limited Companies, pp. 9-11.
68 SCO02655/139. Footnote references to RoC files use the reference numbers given by the holders of the file. Each RoC file was given a number which is unique to that company. The numbers are used by both the SRO and the RoC for filing the files they hold. In the case of the files still held by the RoC, the number is preceded by SCO indicating that the company is one registered in Scotland. The SRO preserves its company files in the BT2 series and this prefix precedes the company number. When reference is made to a specific document in the file, the number of the document is given after the company number. All documents in the company files were numbered in strict chronological order of registration.

1901 on, a list of directors. They also had to reveal, to quote from the form, the 'total amount of indebtedness in respect of all mortgages and charges of all kind which are required (or in the case of Scotland, which if the company was registered in England would need to be required) to be registered with the Register of Companies',[69] and this meant that loans secured on the property, including debenture issues, are also recorded.

The data in the annual returns has been used in this study principally to explore the ownership and control of companies. Ownership has been calculated as a percentage of all paid-up capital and - to quote the form again - of capital 'issued . . . for a consideration other than cash'. If different classes of shares had different nominal values or were paid up to a different extent, percentages were calculated on the basis of the amount actually issued and called-up. To give an example, if a company had two classes of shares, one fully subscribed issue of 100 fully paid-up £10 shares, and the other of 200 £5 shares of which only half had been allotted and on each of which £3 was called up, the owner of 50 of the £10 shares and 20 of the £5 shares would be said to own just over 43% of the shares. In effect, ordinary and other classes of shares have been treated as equivalent, despite any differences in their rights or in their market value. There were two reasons for this. Firstly, preference shares often carried the same rights including voting ones as ordinary shares, so that the only difference the two classes of shares was in terms of dividend and in their rights on dissolution. Secondly, since the shares of private companies could not be freely traded, their market value is unknown.

The list of shareholders gives the names, addresses and, until 1948, the occupations of shareholders, although the last was not very consistently recorded. Most shares in this period in Fife were held by individuals. This made it relatively easy to analyse the ultimate ownership of companies. Attention was paid in particular to two factors: the geographical spread of ownership and how widely the shares were distributed between different owners. Statistics on the first are based on the address of the shareholder. In the case of shares held by executors or trustees, the address of the

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[69] Form of Annual Return of a Company Having a Share Capital.

deceased or minor shareholder was taken, or, failing that, the address of the majority of trustees, excluding lawyers.

Statistics on the concentration of ownership have been calculated in terms of how many shares were held by any individual and by their families, including those related by marriage. Family relations were rarely given in the list of shareholders. In some cases other sources, such as company histories, Who Was Who, or obituaries could be used. In other cases, relationships were inferred. People bearing the same surname and living at the same address, or who at some point in their lives had lived at the same address, were assumed to be related. If shares were transferred in relatively equal portions to people of the same surname or married women with a different surname, it was assumed they were related to the transferor, probably as children.

Finally in a small number of cases, shares were held by corporate bodies, usually other manufacturing companies, investment trusts or bank nominees. In these cases too, the address given has been taken as the geographical location of ownership. In the case of manufacturing companies, this was always the registered office. The address of investment companies appears to have been the address from which they were managed. In the case of bank nominees, shares were often held by individual branches, and the addresses of these branches were used. References to bank nominees were frustrating, since it often appeared likely that shares were being held by bank nominees in trust for members of a controlling family. However, since there was no concrete evidence of this, no conclusions could be drawn and the shares were represented as belonging to the bank. In these cases, the statistics calculated may underestimate the significance of family ownership. Although in the case of most companies, as the statistics in Chapter Three will show, no shares or relatively few shares were held by corporate owners, there was also a number of subsidiaries where all or virtually all shares were held by another company. An attempt was made to explore the ownership of these companies by looking at the files of their holding companies, but this proved impracticable, since subsidiaries did not have to reveal the name of their ultimate owners until the Company Act of 1968. Some information on

the corporate owners of Fife subsidiaries was gained from the Stock Exchange Official Intelligence or the Stock Exchange Yearbook.

Although very useful for exploring the control of companies, no statistical analysis of board composition was attempted. As Pahl and Winkler point out, power is not spread evenly throughout a board and a seat need not represent real influence in a company.[70] As will be explored in Chapter Four, directors in this period often occupied very clearly defined roles, which were by no means equal. Analysing the composition of boards on a statistical basis would therefore shed little light on power in the company.

The third category of information which companies were required to register concerned the actual operation of the companies. Starting in 1907, public companies were required to register a brief annual balance sheet. In 1929, the financial information required was extended and the directors' report presented to the AGM also had to be registered, but the requirements continued to apply only to public companies. In 1948, the requirements were again extended and a new category of non-exempt private companies was created which - as their name implies - were no longer excluded from the requirement to register annual reports and balance sheets. This category included private companies which were subsidiaries of other companies.[71] Independent private companies remained exempt until 1968, when the amount of information which all companies had to disclose was once again extended.

Since most manufacturing companies in Fife were private companies and, furthermore, the financial data which public companies had to divulge in the early twentieth century was limited, this was not as useful a source as it might appear. However, long runs of financial data for a number of companies were compiled, and in the frequent absence of any other information on the financial development of these companies, this information is invaluable. The problems related to the analysis of this data have been the subject of a considerable literature, and this literature, and

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[70] R.E. Pahl and J.T. Winkler 'The economic elite: theory and practice' in P. Stanworth and A. Giddens (eds) Elites and Power in British Society (Cambridge, 1974); see also Hay and Morris, p. 98.

[71] J. Orbell A Guide to Tracing the History of a Business (Aldershot, 1987), p.45.

the use to which this data has been put in this study, are explored in the opening section of Chapter Six.[72]

2.3.2 'Life-Cycle' Data: Other Sources

A variety of different sources were used to research those enterprises for which no Register of Companies file was located. One source was the BT/1 series, also held by the Scottish Record Office, which comprises the ledgers used by the Register of Companies until 1960 to register the receipt of documents.[73] A record was kept for each company with outline details such as its purpose, the location of the registered office and whether the company was private or not. Every document received was recorded in these ledgers with a description of the document and its date of receipt. This information was used to fill in the 'life-cycle' statistics of those limited companies for which no Register of Companies file was consulted, either because they were too small, or because none could be found. In addition, the BT/1 file was used for those few companies, such as The Distillers Co. Ltd., which were obviously not locally-owned concerns.

In investigating the many new companies which started operations in Fife during the 1950s and 1960s, two new problems arose. Many were not registered in Scotland and many were subsidiaries of other companies. In both cases this made searching for them in the Register of Companies files impractical. In the first instance, it would have involved combing the far larger Register for England and Wales, which, in any case, is incomplete; and in the second, the file would have provided little evidence on ultimate ownership. In these cases therefore, the 1970 issue of Kompass and the 1960 and 1970 editions of the Stock Exchange Yearbook were used to glean some outline details.[74]

Unincorporated companies were inevitably the hardest to research. Orbell suggests the official Gazettes, but points out there was no legal need to register dissolutions, as opposed to the far less frequent bankruptcies.[75]

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[72] See Ch. 6, section 6.2.
[73] SRO: BT1/1-70.
[74] Kompass Register of British Commerce and Industry (East Grinstead, 1970), Stock Exchange Yearbook,(London, relevant year).
[75] Orbell, p.7.

The Edinburgh Gazette was checked for every year from 1900 to 1935, by which date most unlimited companies had been incorporated or dissolved. This proved to be of more value in researching changes in partnerships than on actual dissolutions. Thus in 1901 an entry was made in the Edinburgh Gazette to the effect that John Charles Wallace would henceforth run the linen manufacturing business of John Lornie & Sons, previously owned by George Lornie.[76] By 1920 the firm had disappeared from the valuation roll, but there is no evidence in the Gazette as to when it ceased trading. That the first should be registered and the second should not, is perhaps hardly surprising since in the first case it was important to assure customers that service would be continued, whilst in the second, this was no great concern of the former owners. A second source of information on unlimited companies were the valuation rolls themselves which often recorded the names and even addresses of partners. Finally, printed sources also provided considerable information about some companies. There exist a number of company histories of Fife firms, either commissioned by the company or produced in-house to commemorate an anniversary. Where secondary sources provided convincing information, this was also included in the database. Campbell's exhaustive Fife Shopkeepers and Traders, 1820-1870 proved particularly valuable for the beginning of the period studied.[77] In all cases, when the names of owners were discovered, the valuation roll and town directories for the Kirkcaldy area were checked to see if an address could be identified. Since both give occupations, positive identification was not difficult. However, since invariably no information was provided on the size of different shares in a partnership, this information could only be used to calculate the geographical spread and concentration of ownership in certain cases.

2.4 Conclusion

By using these different sources it was possible to collect information on many of the enterprises operating in Fife. 'Birth' and 'death' dates were identified for just over 50% of all enterprises holding property worth more than £50 in any of the survey years and this proportion rises to more than

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[76] Edinburgh Gazette, 1901, p. 329.

[77] A.J. Campbell Fife Shopkeepers and Traders, 1820-1870 (Kirkcaldy, 1989).

70% for those holding property worth more than £250.[78] The proportion of this second group of enterprises, for which it was possible to find data on the geographical spread of ownership, ranged between 63% and 76% for the 7 survey years from 1900 to 1960. The Appendix contains a brief summary of valuation roll and 'life-cycle' data for the 202 enterprises which held property valued at £50 or over in any of the censuses between 1900 and 1960.

The statistics in the next chapters are largely based on the data described in this chapter. In addition, Chapters Four to Six use a wide range of other sources for qualitative analysis. Many of them have been drawn from the records of individual companies, although the papers of a number of organisations such as the Fife Chamber of Commerce and the Glenrothes Development Corporation have also been used. Because of the variety of these sources, any problems arising from their use are discussed in the context in which the source is used. In particular, the discussion of company finances in Chapter Six discusses the literature on and the use made of company financial statements.

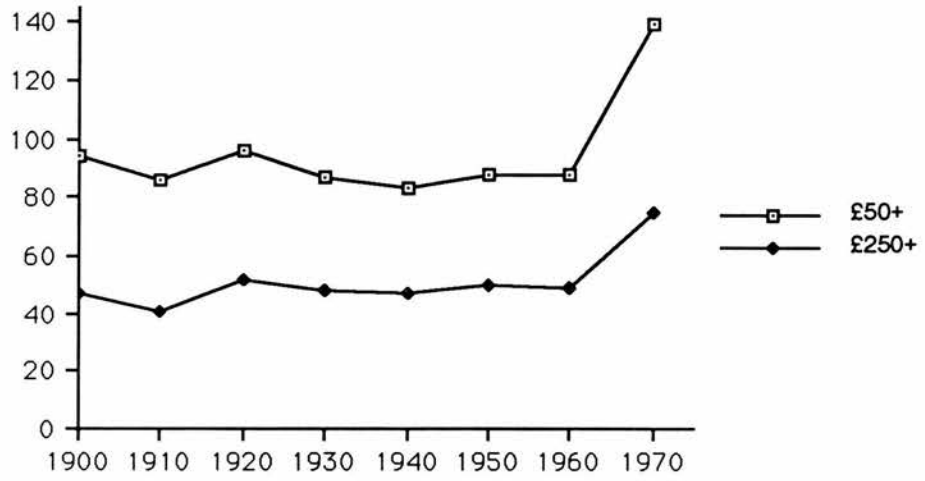
[78] It should be noted that data on company formation and dissolution need not correspond with firm entries and exits from the Kirkcaldy area, since it is of course possible that companies held property elsewhere before, during, or after their activities in Fife. It is therefore necessary to distinguish between data relating to the 'life-cycle' of companies and that to manufacturing in Fife.

CHAPTER 3. THE BUSINESS STRUCTURE OF INDUSTRY

3.1 Introduction

This chapter will use the data collected according to the methods described in Chapter Two to look at the business structure of manufacturing and coal-mining industry in the Kirkcaldy area between 1900 and the 1960s. To do this, it will distinguish three phases in the development of business in this period: a first one lasting until just after the First World War, a second from then until the mid-1950s, and a third around 1960. Each of these periods will be considered in turn, and a number of features which were distinctive to that period will be discussed. The first section describes the structure of business in the early years of the century and considers in particular the extent to which it represented a continuation of the Victorian pattern. The second section will cover the period from the First World War until the mid-1950s and will emphasize in particular the low rate of turnover in the stock of enterprises and the consequences of this stability. The third section will consider the period around 1960 which was one of considerable change and will look at some of the consequences of these changes for the economy of Fife. A final section will look at these changes in the long-term and will point in particular to the significance and implications of changes in the rate of turnover in the stock of businesses.

Figure 3.1: Total Number of Enterprises



Note: Number of enterprises in each survey with manufacturing or coal-mining property in the Kirkcaldy area valued at £50/£250 or over (£300 /£1500 in 1970) Source: see Table 2.4.

Figure 3.1 gives the total number of enterprises using property valued at over £50 and over £250 in each of the years surveyed. In this figure, as in other figures in this chapter, no allowance for inflation has been made between 1900 and 1960, since, as was argued in Chapter Two, valuations were, on the whole, only adjusted upwards when real changes were made to the property. The lower limits have been increased sixfold in 1970 to take account of the two general revaluations which took place in the 1960s. It is impossible to calculate a precise figure for the effect of these two revaluations, but the mean average increase for the 67 industrial properties which were identified as the same in 1960 and 1970 was 5.58 and so the increase shown on this and many of the graphs is likely, if anything, to underestimate the rate of change in this decade.

Table 3.1 Ownership of Enterprises in 1910 (Percentages)

Name of company	Within 5 km of works	Fife	Fife & Lothian	Scotland	Main Share-holder	& Family	Board
Coal-mining Companies							
Wemyss Coal Co. Ltd.	35	46	82	93	53	55	55
Fife Coal Co. Ltd.	2	21	79	93	7	7	28
Earl of Rosslyn's Coll. Ltd.	0	0	0	0	99	99	99
C.B. Balfour (Balgonie)	0	0	0	100	100	100	100
Robt. Forrester & Co. Ltd.	0	0	0	93	48	83	83
Manufacturing Companies							
Michael Nairn & Co. Ltd.	94	97	97	98	57	96	97
Barry Ostlere & Shepherd Ltd.							
Robt. Hutchison & Co. Ltd.	91	91	95	95	27	78	78
Tullis, Russell & Co. Ltd.	69	100	100	100	29	100	100
Distillers Co. Ltd.							
John Fergus & Co.	100	100	100	100			100
Smith, Anderson & Co. Ltd.	50	99	100	100	50	99	100
A.H. M'Intosh & Co. Ltd.	92	92	92	92	43	94	94
Wm. Young & Co. Ltd.	3	33	51	80	22	25	50
Jas. Normand & Son Ltd.	0	0	100	100	99	100	100
Fife Linoleum Co. Ltd.	6	10	85	93	4	4	9
Robt. Wemyss & Co.							100
N. & N. Lockhart	100	100	100	100	100	100	100
David Methven & Sons	100	100	100	100		100	100
Boase Spinning Co. Ltd.	8	19	15	93	57	93	93
Methil Brick Co. Ltd.	100	100	100	100	40	40	63
Andrew Blyth & Co.			100	100		100	100

Table 3.1 Ownership of Enterprises in 1910 (Percentages) Continued

Name of company	Within 5 km of works	Fife	Fife & Lothian	Scotland	Main Share-holder	& Family	Board
J. & W. Hendry							
Douglas & Grant Ltd.	100	100	100	100			100
John Main & Son	100	100	100	100	100	100	100
John Haig & Co. Ltd.						60%+	60%+
James A Weir Ltd.							
J. & W. Dixon							
National Steel Foundry Ltd.	2	23	41	41	5	5	14
Grosset & Co. Ltd.	100	100	100	100	60	100	100
John Jeffrey & Co.	100	100	100	100	100	100	100
Robert Stocks & Co.							
James Hogarth	100	100	100	100	100	100	100
British Oil & Cake Mills Ltd.							
Thos. M'Laren & Sons						100	100
N. Lockhart & Sons	100	100	100	100		100	100
Robt. Heggie & Sons							
Scott of Kinghorn Ltd.	34	49	92	99	24	24	46
Robt. Kilgour	100	100	100	100		100	100
Henry Balfour & Co. Ltd.	58	73	80	83	15	25	33
Peter Greig & Co.	100	100	100	100	100	100	100

Notes: Percentage of shares held by shareholders in each category.
Note that figures for geographical spread of ownership and for kinship links are cumulative (ie. category 'Fife' includes 'within 5km'). Blank spaces indicate insufficient data.
Source: see Table 2.4.

3.2 A Dynamic Economy: c. 1900-18

3.2.1 The Prevalence of Local and Family Ownership

Table 3.1 shows two aspects of the ownership structure of manufacturing and coal-mining enterprises in the Kirkcaldy area in the period before the First World War. It gives details on the geographical spread of ownership and on the concentration of ownership in terms of kinship links for all enterprises in the area using property valued at £250 or over in 1910. Data has been compiled according to the methods outlined in Chapter Two from the lists of shareholders for limited companies and from data on individual owners or partners for unlimited ones. It will be noted that in the case of some of the partnerships, no data was found for the size of holdings, and

this has prevented a more detailed breakdown of data for some firms. Although the property values given in the valuation rolls give only a rough indication of the size of enterprises, firms have been ranked in descending order of the valuation of their holdings so as to give some idea of the relationship between size and ownership patterns. As previously argued, data from the valuation rolls does not allow a comparison between the coal-mining and manufacturing companies, and the coal companies have been listed separately. However, both in terms of turnover and workforce, the five coal companies were larger than many of the manufacturing companies listed here.

The table reveals a picture which corresponds closely to the emphasis on personal, family and local ownership presented in most accounts of Victorian or Edwardian industry.[1] Most enterprises, including the larger ones, were locally owned. Of the 30 enterprises on which detailed data is available, 15 were entirely owned or almost entirely owned by people living within 5 km of the works and in a further two cases all the owners lived in Fife. In other cases, the share held by residents of the Lothians was significant and in only five cases was the majority of shares held outside Fife and the Lothians. In eleven cases, insufficient data was found to give a precise analysis of the geographical spread of ownership, and these include a number of enterprises such as the Distillers Co. Ltd. which were almost certainly not locally owned. However, six of the eleven were unincorporated linen or paper firms for which it proved impossible to locate the residence of all the partners. On the whole, partnerships in these industries were among the firms in which local ownership was most common, and it seems probable that some at least were locally owned.

Table 3.1 also shows that personal and family ownership was widespread. Of the 33 firms for which a detailed breakdown is possible, one shareholder had an absolute majority of the shares in 13 cases, and in a further 10 cases related individuals held over 50% of the shares. As can be seen, family control was only marginally less prevalent among the larger firms

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[1] See for example, F. Crouzet The Victorian Economy (London, 1982), pp 405-414; P. Payne 'Industrial Entrepreneurship and Management in Great Britain' in P. Matthias and M.M. Postan (eds.) Cambridge Economic History of Europe, Vol 7, (London, 1978), esp. pp. 204-6.

than among the smaller ones. Moreover, if anything, the table is likely to underestimate the extent of family ownership, since kinship ties dating from the nineteenth century may well have been missed, and firms which appear to have been partnerships between unrelated individuals may have been family firms. The eight firms for which no data was collected include four unincorporated partnerships which were almost certainly dominated by a single family.

In many cases, family and local ownership meant that owners lived very close to their enterprises indeed. In 1910, men such as William Verden Anderson of Smith, Anderson & Co. Ltd. and Robert and David Russell of Tullis, Russell and Co. Ltd., still lived beside the rural mills they owned and ran surrounded by the housing of their employees. Even in urban Kirkcaldy, this pattern of partners or directors living within the immediate vicinity of their factories had not disappeared. In 1910, there were seven factories in the Linktown Ward of Kirkcaldy valued at £200 or more, three owned by single individuals and four by partnerships. Of the twelve owners, at least ten lived within the ward.

3.2.2 Turnover in the Stock of Enterprises

If data on the ownership of manufacturing industry in the Kirkcaldy area in 1910 reveals a very traditional picture dominated by family and local control, in other respects there are signs that changes in the pre-war period were undermining the business structure of the Victorian era. One area in which differences emerge from nineteenth-century patterns was rates of turnover in the stock of enterprises. The short lifespans and high death rates which were common among Victorian businesses have recently been stressed by a number of writers.[2] For incorporated companies, Payne calculated the average lifespan of dissolved Scottish companies formed between 1856 and 1895 as 16.4 years,[3] whilst Nenadic suggests that for small businesses in Edinburgh, which were rarely if ever incorporated, life

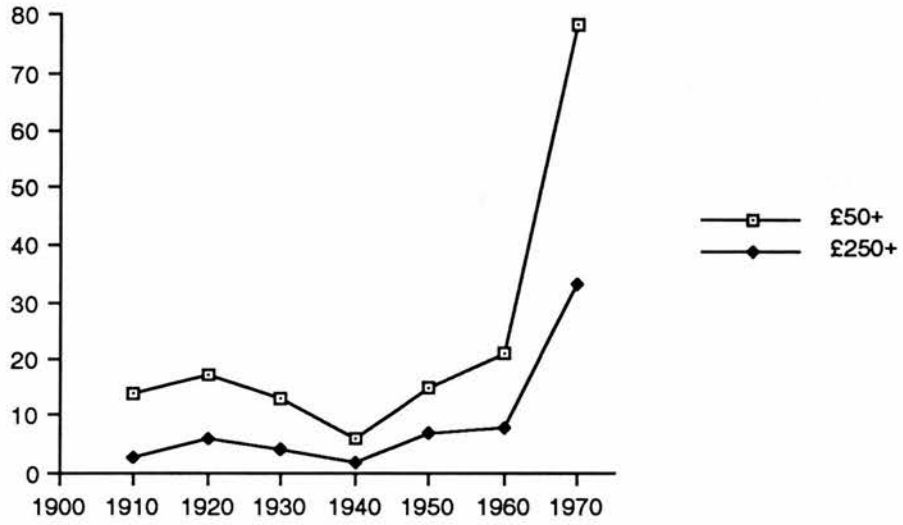
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[2] P.L. Cottrell Industrial Finance, 1830-1914 (London, 1980), p. 35; P. Payne 'Family Business in Britain: An Historical and Analytical Survey' (eds) A. Okochi & S. Yasuoka Family Business in the Era of Industrial Growth (Tokyo, 1984), pp. 190-195; S. Nenadic 'The Small Family Firm in Victorian Britain' Business History, 35, 1993, pp. 89-92.

[3] P. Payne The Early Scottish Limited Companies, 1856-1895 (Edinburgh, 1980), p. 101.

expectancy was three years or less at the time.[4] Nevertheless, Nenadic found the stock of enterprises to be growing dramatically in the late nineteenth century, and argues that birth rates must have been higher still.[5]

Figure 3.2: Number of 'Entries' Per Survey



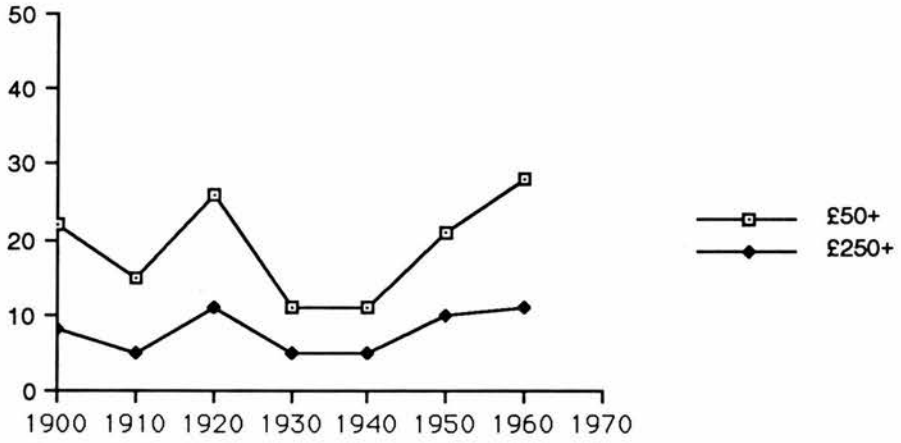
Note: Number of enterprises with manufacturing or coal-mining property in the Kirkcaldy area valued at £50/£250 or over appearing for first time in each survey (£300 and £1500 in 1970).
Source: See Table 2.4.

Figures 3.2 and 3.3 give the number of firms with property valued at £50 and over and £250 and over appearing for the first or last time in each survey of the valuation rolls between 1900 and 1970. Enterprises which appeared previously or subsequently at a lower valuation have not, of course, been included. In the case of figure 3.2, the £50 and over is probably the more useful indicator in the years before the First World War, since in this period most firms started life with relatively modest property holdings and increased them over time. As can be seen from the two figures, both the entry and exit rates were relatively high in the first decades of the twentieth century. They do, however, disguise significant differences within the region investigated. At one extreme was the area around the mouth of the River Leven. The turn of the century saw dramatic growth in the Fife coal industry. Coal production in the county more than doubled between 1891 and 1905,[6] with much of the expansion in the eastern part of

[4] Nenadic, p. 90.
[5] Ibid, pp 89-90.
[6] A.S. Cunningham Mining in the 'Kingdom' of Fife (Leven, 1907), p. 12.

the coalfield. The port of Methil, insignificant until first developed in 1884, was, by 1906, the second largest coal port in Scotland after Glasgow.[7] This rapid development attracted not only machinery manufacturers such as the Methil Engineering Co. Ltd., but also a number of businesses which required large quantities of fuel, such as the Scottish Cyanide Co. Ltd. and the National Steel Foundry Ltd.[8] This was reflected in the survey of the 1910/1 valuation roll, where no less than 43% of the enterprises using property valued at over £50 in the Levenmouth area had not appeared in the 1900/01 valuation roll. A very different pattern emerges from the figures for the burgh of Kirkcaldy. Two further surveys of valuation rolls for 1880/1 and 1890/1 were made for the burgh and the results for the whole period between 1880 to 1940 are given in Figure 3.4. These reveal that the rate of business turnover had already begun to drop by 1900 and that, whilst both entries and exits fell, the drop in new entries was the more dramatic.

Figure 3.3: Number of 'Exits' Per Survey



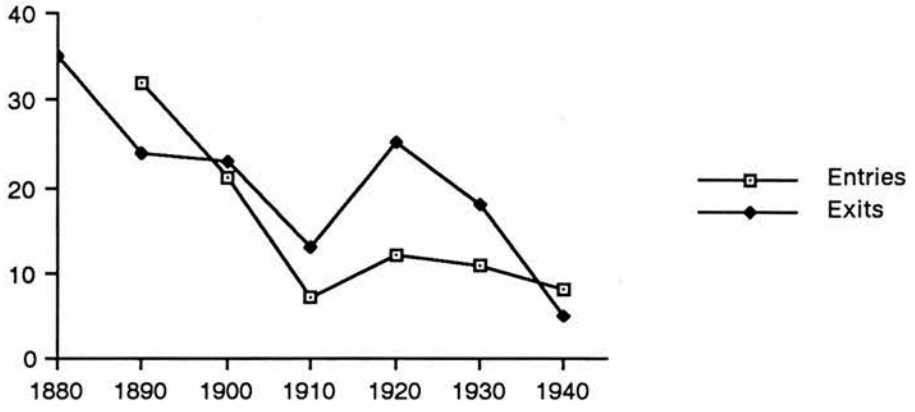
Note: Number of enterprises with manufacturing or coal-mining property in the Kirkcaldy area valued at £50/£250 or over appearing for last time in each survey (£300 and £1500 in 1970).
Source: See Table 2.4.

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[7] For the development of Methil see I. Russell 'Randolph Wemyss and the Development of Methil as a Coal Port', Scottish Industrial History, 5, 1982 and B. Lenman From Esk to Tweed. Harbours, Ships and Men of the East Coast of Scotland , (Glasgow, 1975), pp. 139-146.

[8] A.S. Cunningham Rambles in Scoonie and Wemyss (Leven, 1905), pp. 171-2; SRO: BT2/7205/2.

Figure 3.4: Percentage of 'Entries' and 'Exits' Per Survey for Kirkcaldy Burgh



Note: Percentage of all enterprises with manufacturing or coal-mining property in Kirkcaldy burgh valued at £50 or over appearing for first or last time in each survey (based on pre-1929 burgh boundaries).
Source: VR/50/11, 16, 23, 30, 40, 50, 60.

The high rate of company formation in nineteenth-century Britain is often explained in terms of a cyclical pattern. Payne, in his study of Scottish limited companies, argues that 'crude though the annual data are, they suggest that peaks in company formation occurred at or shortly before the upper turning point of the general cycle',[9] whilst according to Michie during booms such as the one of the early 1890s 'it was possible to float almost any enterprise, including ones with the most dubious prospects'.[10] Peaks in the numbers of new enterprises might be related to particular industries and particular locations, often following some technical breakthrough. Gulvin, in his study of the Scottish hosiery industry, argues that the mechanization of the industry in the 1880s and 1890s encouraged many new firms to enter the industry in Hawick,[11] and Cottrell describes the

[9] Payne Scottish Limited Companies, p.18.
[10] R. Michie Money, Mania and the Markets. Investment, Company Formation and the Stock Exchange in Nineteenth-Century Scotland (Edinburgh, 1981), p. 153.
[11] C. Gulvin The Scottish Hosiery and Knitwear Industry, 1680-1980 (Edinburgh, 1984), p. 73.

Dublin and Birmingham bicycle booms of the 1890s.[12] Inevitably, such booms claimed their victims. Even when the promoters had launched their companies in good faith, many companies launched during such peaks were bound to fail. As Cottrell points out:

> Generally in the early years of any enterprise profits were low, if they were generated at all . . . In this situation finance was required for both stocks and plant and consequently the firm was highly susceptible to any tightening of monetary conditions. Entry into an industry may have been encouraged by the lure of high profits during a boom . . . The crucial factor was whether a company could survive its first four or five years, which usually would have spanned the upper turning point of the trade cycle and some form of credit crisis.[13]

A similar pattern of technical change leading to waves of new entries into an industry can be identified in the Kirkcaldy area in the nineteenth century. In his Industries of Kirkcaldy and Dysart, published in 1872, Bryson points to the 1820s and the 1860s as the crucial periods when power machinery was applied to the spinning and the weaving of linen respectively. The consequences were dramatic: 'Altogether, the additions made to the spindles and looms in the district since 1863 are equal to about 100 per cent. A vast revolution has been created in the linen trade by these large extensions . . .'[14] These periods of change were ones in which many new firms entered the industry. For instance, of the sixteen power-loom factories in Kirkcaldy and Dysart that Bryson lists, only six had been built before 1863, and, whilst the new mills included some built by firms which had previously employed handloom weavers, a majority were owned by new entrants to the industry.[15] Many of the new mills, however, passed through the hands of several owners in their early years.[16] A similar period of frenetic business activity can be identified in the floorcloth industry in the 1860s and 1870s, following developments in printing and drying, and in

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[12] Cottrell, p. 174.
[13] Ibid. p. 35.
[14] J. Bryson Industries in Kirkcaldy and District (Kirkcaldy, 1872), p. 78; see also W.H.K. Turner 'The Textile Industries of Dunfermline and Kirkcaldy, 1700-1900' The Scottish Geographical Magazine 73, 1957, pp. 134-6.
[15] Bryson, pp. 61-82; A.T. Warden The Linen Trade, Ancient and Modern (London, 1864), pp. 498-501, 561-7, 655.
[16] Bryson, eg. pp, 25-6, 70.

linoleum in the 1880s, after Frederick Walton's patent ran out.[17] New entries included both firms established by former employees of Michael Nairn & Co., the local pioneer of the industry, and others set up by complete newcomers such as the partnership of Hendry, Whyte and Strachan, a flaxspinner and two merchants, and Tait, Chorley & Co., founded by a John Tait, 'formerly a butler at Dunnikier House'.[18] The development of the linoleum industry also created opportunities for engineering and for lithography companies.[19] In the floorcovering industry too, many new entries did not survive their early years and at least four had been taken over by other companies by 1890.[20]

The 1880s appear to have been the last occasion when technological change created opportunities for new entries to establish themselves in a new or developing industry in the burgh of Kirkcaldy. Accounts of the economic development of the burgh thereafter concentrate on the progress of existing firms, and the valuation roll for 1900/1, unlike those for 1880/1 and 1890/1, shows no clusters of entries or exits in a particular industry.[21] The absence of any further such booms is part of the explanation for the decline in the rate of turnover in the stock of enterprises. Yet there was another factor which contributed to this decline. Prior to 1900, there appears to have been a willingness to start businesses in industries which offered steady but undramatic prospects when the opportunity arose. In this, factory space appears to have been a crucial factor, suggesting that second-hand premises and machinery offered easy entry. Examples can be drawn from the linen industry which, according to Bain, had passed its peak by the 1870s in Kirkcaldy.[22] Nevertheless, data from the valuation rolls suggests that every mill or power-loom factory which closed between 1880 and 1900 was acquired by a former competitor or a new entrant. Thus, in 1880, Andrew Blair & Co. operated the powerloom factory in Birrell

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[17] J.Y. Lockhart Kirkcaldy. A Century of Progress (Kirkcaldy, 1939), pp. 27-30; G. Grant '"The Queer-like Smell": The Kirkcaldy Floorcloth and Linoleum Industry' Scottish Local History, 27, 1993, pp.16-7.
[18] Lockhart, p. 28.
[19] Lockhart, pp. 17, 20; I. Bowie 'A Study of Industry in Kirkcaldy, Fife' (unpubl. typescript, 1960) pp. 23-25; The Allen Lithographic Co. Ltd. Our Progress in Print (Kirkcaldy, 1959).
[20] Lockhart, pp. 29-30, Grant, p. 17.
[21] Lockhart, pp. 13-21; Bowie, pp. 1-27; C. Bain 'The Social Impact of Kirkcaldy's Industrial Revolution' (unpubl. PhD thesis, 1973), pp. 40-9.
[22] Bain, p. 38.

St. built by Andrew Blair in 1860, but in 1890 it was run by John Honeyman & Co. and in 1900 by John Main & Sons.[23] The Kirkcaldy Spinning Co. Ltd. was formed in 1898 to work the mill auctioned on behalf of the sequestered estate of the bankrupt David Yule, spinner, in 1897.[24] A similar pattern can be identified among engineering companies: John Key and Son was replaced at the Whytebank Foundry by John Scott and Co. in 1885.[25]

The valuation roll for 1910/1, however, suggests that a number of mills or factories had been abandoned or demolished. For instance, power-loom factories in Birrell Street, in Wemyss Buildings and in Heggie Square, and the factory of the Victoria Carpet Co. on Victoria St., which had all appeared in the valuation roll for 1900/01, were missing or marked 'empty' ten years later. All were in the town centre, and in two cases the firms had moved to newer premises on the edge of the built up area.[26] The premises they had vacated, however, were no longer taken up by new entrants. Significantly, new entries in the burgh after 1900 were mostly small firms. In the surveys for 1910/1 and 1920/1 only one firm entered with property valued at over £250 and this was not a new venture: in 1912, John Main & Son's remaining powerloom factory was acquired by the Walter Lumsden & Sons from Freuchie in the Howe of Fife.[27]

The decline in the turnover in the stock of enterprises in the burgh of Kirkcaldy was, therefore, composed of two factors. On the one hand, no further booms brought large numbers of new entries into a specific industry and, on the other, it appears to have become increasingly rare for entrepreneurs to enter established industries by acquiring the business or premises of existing or departing firms. As already indicated, this decline was confined to the burgh of Kirkcaldy itself. The Levenmouth area was undergoing a boom in the first decades of the twentieth century with many new launches and, as had been the case in earlier booms in Kirkcaldy, some spectacular failures.[28] New enterprises were also launched in

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[23] Bryson, p.67; SRO: VR 50/11, 50/16 and 50/23.
[24] SRO: BT2/3812/5.
[25] See Bank of Scotland Archives, Procedure Book - Kirkcaldy, No. 2, 22.4.1884, 6.6.1885.
[26] SRO: VR 51/23, 30.
[27] Edinburgh Gazette, 1912, p. 1389.
[28] The Fife Distillery Co. Ltd. was dissolved in 1903, less than seven years after its launch. On liquidation, less than 10% of the capital raised was available to distribute to shareholders. BT/3220/19.

Kinghorn and Burntisland. It is, therefore, perhaps useful to see the period between 1900 and the First World War as one of transition, in which the burgh of Kirkcaldy was the first to experience the shift from the high birth and death rates, which had characterized the structure of industry in the Victorian era, to the low rates of turnover in the stock of enterprises which, as is explored below, characterized the whole district in the inter-war years.

3.2.3 The Advent of Limited Liability

One sense in which the business structure of industry at the turn of the century was clearly different from that in the nineteenth century, was in terms of the number of incorporated companies. Several writers have pointed to the 1890s as the key decade when limited liability became common among manufacturing firms,[29] and this picture is confirmed in Fife. Of the 94 enterprises using property valued at over £50 in 1900, only 5 had been limited since before 1890, but another 19 became incorporated during the next decade. Between 1900 and 1914 another 16 were incorporated.

Prior to the Companies Act of 1907, no separate legal category existed for limited companies in which the shares were not freely transferable. In practice, however, even before that date, many newly incorporated companies were imposing strict conditions on the transfer of shares in their Articles of Association. Thus the linen firm of Ireland & Wishart Ltd., incorporated in 1900, denied shareholders the right to transfer ordinary shares without the consent of the board and gave directors powers to force shareholders to surrender ordinary shares if they ceased to work for the company or if they acquired an interest in another firm, and to refuse to register any share transfers if they considered them 'irresponsible' or potentially detrimental to the company.[30] Very often, the companies adopting such articles were existing partnerships which made no attempt to use their new status as limited companies to raise outside capital. In the case of Ireland & Wishart Ltd., a partnership with that name had existed

[29] Michie, p. 153; Cottrell, pp. 162-3.
[30] RoC: SCO04449/2.

since 1837,[31] and 2810 of the 3000 issued ordinary shares and 2455 of the 2700 issued preference shares were retained by the four former partners, with the rest going to relatives or senior employees.[32] In recognition of the increasing demand for limited liability from companies which did not wish to permit a trade in their shares, the 1907 Companies Act formalised this situation by creating the new status of private limited companies, with tight restrictions on the transfer of shares and on the number of shareholders.[33] Thereafter, the majority of new limited companies engaged in manufacturing in the Kirkcaldy area adopted this new status and a number of existing ones transferred to it.

However, in the period between the 1890s and 1920, a number of incorporated companies were established in Fife, which did raise capital by selling shares to the public. In some cases these were existing companies which used the possibilities presented by incorporation to find extra resources. Companies such as John Balfour & Co. Ltd., feedstuff manufacturers, and Wm. Gibson & Co. Ltd., golf club manufacturers, had previously existed as unlimited partnerships and, on incorporation, the ordinary shares were retained by the former partners and their families in exchange for the assets of the old company, whilst a certain number of preference shares were sold to the public. In such cases, it seems likely that informal networks were used. For Wm. Gibson & Co. Ltd., this was certainly the case, since it was incorporated in 1913 as a private company and so was legally forbidden from advertising its shares. The early shareholders in this company included many with the same surname as the principal shareholder, others living on the same street, a golf ball manufacturer and a golf club master.[34] John Balfour & Co. Ltd. was not a private company, and a prospectus was issued, but virtually all the early non-family shareholders were farmers and grain merchants resident in the area around Leven where the company was based.[35] In a few cases, companies resorted repeatedly to these informal networks to raise capital. Henry Balfour & Co. Ltd. was launched in 1896 to take over the works of an

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[31] A.J. Campbell Fife Shopkeepers and Traders, 1820-1870, Vol. III (Kirkcaldy, 1989) p. 252.
[32] RoC: SCO04449/6.
[33] For the background to the Act, see Cottrell, p. 74.
[34] SRO: BT2/7467/14.
[35] BT2/8912/9.

existing engineering firm. Its original capital of £10,000 was largely taken up by the former partners and their families. In 1913, however, the capital was increased to £25,000 and a prospectus was issued to sell a further 800 £10 shares so as to raise capital to extend the works. In 1915, a further £4,000 was raised and, in 1918, another £3,000, although in both cases no prospectus was issued.[36] On each occasion, many of the shares were taken up by existing shareholders or their neighbours, and in 1920 39% of the capital was still held in Leven with a further 31% held elsewhere in Fife.[37]

In other cases, new or greatly restructured companies were established in which the directors' holdings were relatively modest and most of the shares were sold to the public. Some of these companies were surprisingly small. Scott of Kinghorn Ltd., shipbuilders, for instance, was launched in 1901 with a nominal capital of £12,000, of which 8,215 £1 shares had been sold by 1905.[38] The Kirkcaldy Spinning Co. Ltd., incorporated in 1898, had a nominal capital of £20,000 and 12,704 £1 shares had been issued by 1900.[39] At this level, the costs of floating a company on even the Edinburgh stock exchange would have absorbed a sizeable proportion of the capital raised,[40] and there is no evidence that they were so floated. The estimated preliminary expenses for floating Scott of Kinghorn Ltd. were only £114 11/2.[41] An indication of how shares may have been advertised is found in the Directors' Minute Book of John Haig & Co. Ltd., where it was noted that a prospectus for Scott of Kinghorn Ltd. had been received.[42] According to Michie, stockbrokers in areas such as Fife circulated lists of local shares without having recourse to a stock exchange.[43] Under such circumstances, it is perhaps not surprising that most shares were acquired by Fife or Edinburgh investors. In the case of the two companies mentioned above, in 1900, 10% of the shares in the Kirkcaldy Spinning Co. Ltd. were held by

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[36] RoC: SCO03138/1, 6, 26, 29, 33, 38.
[37] Ibid. /42.
[38] SRO: BT2/4817/21.
[39] BT2/3812/9.
[40] Thomas suggests that £10,000 was the minimum necessary before a share issue was viable on an English provincial stock exchange in the period before 1914. Costs were of course higher in London. W.A. Thomas The Provincial Stock Exchanges (London, 1973), p. 137.
[41] SRO: BT2/4817/11.
[42] Distillers Archive. Directors' Minute Book of John Haig & Co. Ltd., 13.5.1901.
[43] Michie, p. 173.

Kirkcaldy investors, a further 6% by people resident in other parts of Fife, and 67% by people with addresses in Edinburgh.[44] In 1905, 34% of the stock of Scott of Kinghorn Ltd. was held by 27 individuals resident in the small burgh of Kinghorn alone, with a further 15% held elsewhere in Fife and 43% in Edinburgh.[45]

Harrison suggests that relatively small firms resorted to public flotation because of an inability to raise money by other means.[46] Some evidence in support of this is provided by the case of Scott of Kinghorn Ltd. On incorporation in 1901, the largest shareholder was John Scott, who had been a partner in the firm of John Scott & Co. which had previously run the shipyard. The partnership had acquired the yard in 1885. In that year, they approached the Bank of Scotland for overdraft facilities and were refused. The firm was apparently always short of capital. and by 1900 was bankrupt, leaving debts to the British Linen Bank of £12,787 7/-.[47] Limited liability, therefore, provided a second opportunity for John Scott to raise the capital to run the yard effectively.

The need for large amounts of capital to launch themselves in industries where an expenditure on fixed assets was high at the start is likely to have been the reason why limited liability was chosen for some of the larger new enterprises. One example was the Fife Distillery Co. Ltd., established in 1896 with plans to build a distillery opposite the one owned by The Distillers Co. Ltd. in Cameronbridge. The nominal capital was £100,000, divided into £10 shares, and 4110 had been sold by 1898.[48] Another was the Scottish Cyanide Co. Ltd. established by a group of leading Edinburgh businessmen in 1896 with a capital of £100,000 to exploit a new procedure for manufacturing cyanide for use in the gold-mining industry.[49] The Fife Linoleum Co. Ltd., launched in 1904, and long the number three among

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[44] SRO: BT2/3812/9.
[45] SRO: BT2/4817/21.
[46] A.E. Harrison 'Joint-Stock Company Flotation in the Cycle, Motor-Vehicle and Related Industries, 1882-1914', Business History, 23, 1981, p. 171.
[47] SRO: BT2/4817/1, 9; Bank of Scotland Archive, Procedure Book No. 2, Kirkcaldy Branch, 6.6.1885; Ibid., British Linen Bank, Procedure Book, Kirkcaldy Branch, 10.2.1904; Kirkcaldy Museum 44/7, typescript extract from article in Shipbuilding and Shipping Record, 11.4.1946, entitled 'The Kinghorn Shipyard'.
[48] SRO: BT2/3220/2, 11.
[49] BT2/3180/1, 5.

Kirkcaldy's linoleum firms, had a nominal capital of £50,000 and issued a prospectus on its flotation offering 35,000 £1 ordinary shares, of which 32,580 were taken up.[50] In all three cases, heavy outlays were needed to enter capital-intensive industries in which competitors were already established.[51] In these ventures too, the initiative came largely from local or Edinburgh entrepreneurs and most of the shares were sold in those areas. In the case of the Fife Distillery Co. Ltd., all the subscribers and the first directors were based in Fife and, in 1900, 1666 (41%) of the issued £10 shares were held in Leven and the immediate vicinity, with a further 28% held elsewhere in Fife and 9% in the Lothians.[52] In 1900, all the shares in the Scottish Cyanide Co. Ltd. were held by shareholders resident in Fife or the Lothians.[53]

Finally, public share issues became a common means for most of the large coal and linoleum companies of the Kirkcaldy to raise the large amounts of capital they required to develop their facilities. When Barry, Ostlere and Shepherd Ltd. was launched in 1900, £187,500 in ordinary and preference shares were offered, as were £79,500 in 4% debentures. In 1904 a further 10,000 £10 preference shares were offered to existing shareholders at par and in October, 1905, another £200,000 was raised by an issue of 4.5% mortgage debenture stock.[54] It was explained in the prospectus that this was to pay for the construction of a new inlaid linoleum factory and 'the correspondingly large expenditure on Moveable Machinery and Plant', which had taken place since the company was founded.[55] Between 1894 and 1905, over £500,000 was raised from the public to develop the Wemyss coalfields by the Wemyss Collieries Trust Ltd., which owned the coal, and the Wemyss Coal Co. Ltd., which worked the mines.[56] A debenture prospectus in 1905 linked the issue to 'The Company having taken over the leaseholds of the old-established and successful business of Messrs. Bowman & Co., coalmasters, . . .'.[57] Even the Fife Coal Co. Ltd.,

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[50] BT2/5734/8, 15.
[51] See, for instance Cunningham on the early history of the Scottish Cyanide Co. Ltd. Cunningham Rambles, pp. 171-2.
[52] SRO: BT2/3220/1, 13, 14.
[53] BT2/3180/14.
[54] RoC: SCO04357/5, 18, 21. Stock Exchange Official Intelligence, 1910, p. 578.
[55] RoC: SCO04357/21.
[56] Stock Exchange Official Intelligence, 1910, p.1360; RoC: SCO02655/29, 36.
[57] Ibid., 36.

which funded most of its investment through internal profits, offered 275,625 £1 shares to existing shareholders in 1909 at par.[58]

Flotations of this size could only be achieved through the stock market, and companies such as Barry, Ostlere and Shepherd Ltd. were quoted in London as well as Edinburgh and Glasgow. Yet here too local investors and informal networks were important. At the end of 1900, 45% of the capital of Barry, Ostlere & Shepherd Ltd. was owned in Fife, and among the other shareholders were many with addresses in Ireland, the birthplace of John Barry, the chairman and managing director of the company, and Tyneside, where he had first worked.[59] In 1910, 27% of the preference shares in the Wemyss Coal Co. Ltd. were held in Fife and a further 42% in the Lothians.[60]

The uses made of limited liability between the 1890s and the First World War can be seen as a sign of the continuing vitality of the Fife economy. During this period new and established companies used this new means of raising capital to develop or expand major industrial and mining ventures. The entrepreneurs who exploited these opportunities were able to transcend the financial limitations imposed by personal or family ownership. Yet in doing so, they preserved strong local roots. All of these companies were based in Fife or Edinburgh and they raised much of the capital locally. Since the files of some of the largest companies are unfortunately incomplete, it is difficult to put an overall figure to the capital raised or its sources, but a figure of around £2 million, with a third coming from Fife and over a third from the Lothians, might be a reasonable estimate. Although Dundee and the Alloa area were home to a number of shareholders, no other area in Britain was as important a source of capital. In particular, the small number of shareholders based in the Glasgow area might be noted. Of the 30 enterprises listed in table 3.1 for which data on the geographical spread of ownership is available, in only one did shareholders resident in Glasgow control more than 10% of the capital.

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[58] RoC: SCO02826/34; see also R. Church The History of the British Coal Industry, Vol. 3: 1830-1913, Victorian Preeminence (Oxford, 1986) pp. 147.
[59] RoC : SCO04357/9.
[60] RoC: SCO02655/52.

The ability of local enterprise to raise capital in this period will be further examined in Chapter Six.

3.2.4 The Distribution of Enterprises by Industry and Size

As was argued in the Introduction, the economy of the Kirkcaldy was relatively diversified. If enterprises in the area using property valued at £250 or over in 1910 are categorised according to the industrial orders of the 1921 census,[61] the 41 enterprises are spread across eight of the eleven mining and manufacturing categories. The largest number of firms - fourteen - were in the textile category, indicating the continued importance of the linen industry to the area. The other firms, however, were widely distributed. As well as individual firms producing bricks, pottery and furniture, there were also five coal companies, five in the metals and engineering category, seven food and drink producers (maltsters and distillers), six paper manufactures and three floorcloth and linoleum manufacturers, an industry which the census classified under other manufacturing industries. Thus, if the traditional Fife staple industry was still well represented, the area also possessed firms manufacturing a wide range of other goods, including many destined for consumer markets.

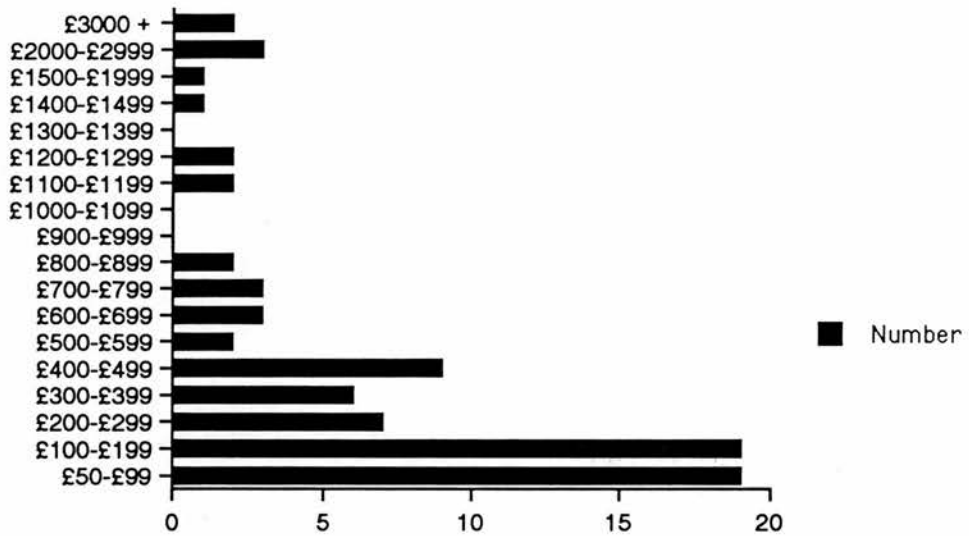
If the distribution of firms by industry reveals the continuing importance of linen, different emphases emerge when distribution by size is considered. There is also evidence to suggest that this was one final respect in which the profile of industry in the Kirkcaldy area was changing in these years. The classical picture of business structure in Victorian Britain has stressed the modest scale of industry. According to Crouzet, 'industrial firms of very large size remained relatively few, not to say exceptional, during the whole of the Victorian period and beyond, up to 1914, and around them were to be found a mass of factories that were medium-sized or even small'.[62] Both Gatrell and Lloyd-Jones and Le Roux have demonstrated for the cotton industry in the first half of the nineteenth century that there was a limit to the

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[61] The 1921 census classifications have been used in preference to those of 1911, since the categories used in 1911 are rather imprecise and were not used in later censuses. The 1921 categories, with modifications, were used in all subsequent censuses.
[62] Crouzet, p. 81.

optimum size of firms;[63] whilst Pollard has argued for the period between 1870 and 1914 that 'British firms remained small even in industries where there were clear advantages of size'.[64] An alternative if not necessarily conflicting view of the size range of firms in Scotland in 1851 has been presented by Rodger. Using a unique survey of industrial employers in Scotland in that year he argues that 'industrial dualism in the Scottish economy was present at an early juncture. Approximately 90 percent of firms employed fewer than 20 workers; yet 1 percent of employers hired more than a quarter of the work force'.[65]

Figure 3.5: Size of Enterprises in 1910



Note: Enterprises with manufacturing property in the Kirkcaldy area categorized by the total rateable value of their property.
Source: See Table 2.4.

Although the figures derived from the valuation rolls give only a rough indicator of the relative size of enterprises, they suggest that small and medium-sized firms played a significant role in the economy of the

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[63] V.A.C. Gatrell 'Labour Power and the Size of Firms in Lancashire Cotton in the Second Quarter of the Nineteenth Century' Economic History Review, 30, 1977; R. Lloyd-Jones and A.A. Le Roux 'Marshall and the Birth and Death of Firms; the Growth and Size Distribution of Firms in the Early Nineteenth Century Cotton Industry, Business History, 24, 1982.

[64] S. Pollard Britain's Prime and Britain's Decline (London, 1989), p. 55.

[65] R. Rodger 'Concentration and Fragmentation: Capital, Labour and the Structure of Mid-Victorian Scottish Industry', Journal of Urban History, 14, 1988, p. 188-189.

Kirkcaldy area in the years before 1914. Figure 3.5 classifies manufacturing firms according to the size of the property they used and highlights the significance of firms with property valued between £200 and £900. Interestingly, despite the number of linen firms, only two engaged in the industry figured among the eleven enterprises which surpassed the £900 limit. The structure of this industry matches Marshall's picture of an industrial region with a mass of equal-sized, competing yet inter-linked firms, most of which were engaged in only one stage of production, be it spinning, weaving or bleaching.[66]

Yet figure 3.5 also points to the dualism that Rodger discovered in the mid-nineteenth century. In addition to the many small and medium-sized firms, there existed a small number of much larger ones. In 1910, the two Kirkcaldy linoleum giants, Michael Nairn & Co. Ltd. and Barry, Ostlere & Shepherd Ltd. each owned manufacturing property valued at over three times the value of the next largest manufacturing company. The two firms were large even by national standards. Scott and Hughes list Barry, Ostlere and Shepherd as the 22nd largest non-financial company in Scotland in 1904/5 whilst Chandler ranks Michael Nairn & Co. Ltd. in 111th place in his list of the largest UK companies in 1919.[67] To these two giants must be added the coal companies, two of which, the Fife Coal Co. Ltd. and the Wemyss Coal Co. Ltd., both employed well over 3000 workers in 1905/6 and were among the few mining firms to be listed in Jeremy's 1907 list of the hundred largest employers in the UK.[68]

These companies had only recently achieved this commanding lead. This appears to have been true even in the case of Michael Nairn & Co. Ltd., the only one of these companies to have increased in size solely by internal expansion. Between 1880 and 1910 the valuation of its property had more than tripled, a rate of increase matched by only four other Kirkcaldy enterprises. In the case of the other giant companies of the area, mergers

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[66] A. Marshall Industry and Trade (London, 1919) pp. 599-603.

[67] J. Scott and M. Hughes The Anatomy of Scottish Capital. Scottish Companies and Scottish Capital, 1900-79 (London, 1980), p. 57; A.D. Chandler Scale and Scope. The Dynamics of Industrial Capitalism (Cambridge, Mass., 1990), p. 672.

[68] Cunningham Mining, pp. 26-7; D.J. Jeremy 'The Hundred Largest Employers in the United Kingdom, in Manufacturing and Non-Manufacturing Industries in 1907, 1935 and 1955' Business History, 33, 1991.

had played a significant role. In the floorcloth and linoleum industry, a wave of mergers in the 1880s and 1890s had culminated in the proposed merger of all the major Kirkcaldy firms, including Nairns, in 1898 and when that failed, in the formation of Barry, Ostlere and Shepherd Ltd. in the following year.[69] In the coal industry too, there was a significant shift towards concentration. The number of mining companies in the Kirkcaldy area was reduced from seven in 1900 to four by 1920, as the Wemyss Coal Co. Ltd. took over the assets of Bowman & Co. when its lease ran out, and as the Fife Coal Co. Ltd. acquired the assets of the Walter Herd & Co. Ltd. and the Bowhill Coal Co. Ltd. during a period of expansion which saw it absorb in total seven coal companies between 1896 and 1909.[70]

Coal and linoleum were among the most buoyant industries in the Kirkcaldy area at the turn of the century. As we have seen, the East Fife coalfield expanded rapidly from the 1890s on, whilst employment in the floorcloth and linoleum industry in Fife increased by 24% between the census of 1901 and that of 1911.[71] The Fife coal and linoleum companies were also among the leaders in the adoption of new methods or technology. Church cites the Fife Coal Co. Ltd. as one of the first to make extensive use of electrically-powered coal-cutting machinery, whilst the Kirkcaldy linoleum companies were active both in improving technical procedures and in adopting improvements made elsewhere.[72] It is surely significant that concentration took place in the most dynamic sectors of the local economy. No other industries were affected by merger activity before 1914.

Yet even these giant companies remained single-product or dominant-product enterprises which made no major attempt to diversify their production base. In 1910, virtually all enterprises in the Kirkcaldy area were active in one industry and most operated from one single site. Even when an enterprise possessed more than one factory, it appears that there was no integration between the plants and both produced the same product

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[69] For an account of mergers within the Kirkcaldy linoleum trade, see Lockhart, pp. 29-38. On negotiations between Nairns and the other Kirkcaldy firms, see Kirkcaldy Museum Archives 5/5 and 5/6.

[70] A. Muir The Fife Coal Co. Ltd. (Leven, no date), pp.124-5.

[71] Census of Scotland, 1911. Report of the Twelfth Decennial Census of Scotland, Vol. I, Pt. 17, County of Fife, 1912, Cmd. 6097, p. 900.

[72] Church, pp. 355, 362; Grant, p. 17.

in parallel. Thus James A. Weir Ltd. possessed paper mills at Strathendry near Leslie and near Alloa, but they were run separately.[73] Hannah has argued that the turn of the century movement towards industrial concentration was 'historically unprecedented' and that 'the foundations of the modern corporate economy were already discernible in the large firms that had been created', yet goes on to stress how limited the impact of these changes were.[74] Both in terms of the size of enterprises and in terms of the wider business structure of industry, this examination of the Kirkcaldy area in the pre-war years confirms this picture of a world which in certain respects and in certain industries was changing from the Victorian era, but in which continuity was the dominant feature.

3.3 Crisis and Stability: ca. 1918-55

3.3.1 A Turning Point: The Slump of 1920-1

The period immediately following the First World War emerges as one of considerable significance in the development of the business structure of the Kirkcaldy area in that it saw both a revival of the pattern of business formation of the pre-war era, but also some striking new developments. 1919 saw the establishment of a number of traditional partnerships and family firms, including some in the burgh of Kirkcaldy itself such as the carpet firm of Meikle and Dodds and the Douglas Preserves and Confectionary Co. Ltd. Interestingly, the two followed the pre-war pattern and started life in recently vacated premises. The closing months of the war also saw the launch of one further Fife-based company with dispersed ownership in the Burntisland Shipbuilding Co. Ltd. The founders appear to have been well aware of the potential for raising capital locally. According to Wilfrid Ayre, the joint managing director of the new company, 'as we considered that Sir William Robertson, Lord Lieutenant of Fife, might conceivably stimulate local interest in our public issue, we invited him to be chairman of the company.'[75] No problems were encountered placing the shares. Of the total nominal capital of £150,000, 120,000 £1 shares were offered for subscription in April 1918, and all had been allotted by the 14th

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[73] SCO03218/5; G.P. Bennett The Past at Work (Kirkcaldy, no date), p.64.
[74] L. Hannah The Rise of the Corporate Economy (2nd edition, London, 1983), pp. 22-3.
[75] Sir W. Ayre A Shipbuilder's Yesterdays (Aberdour, 1968), pp. 12-3.

May.[76] In 1920, 68% of the shares were held by investors resident in Fife or the Lothians, with many from Burntisland itself (15% of the shares) and from Dunfermline (19%), where Sir William Robertson was a leading linen manufacturer.[77]

If these developments suggested a reassertion of pre-war patterns, other developments pointed towards the greater integration of Fife into the national economy. Firstly, for the first time, a local company was launched on the London Stock Market. The Boase Spinning Co. Ltd. was an old-established family-owned linen firm with mills and factories in Dundee and Leven. It was relaunched in 1920 by a London-based company promoter, Sir Archibald Mitchelson.[78] The result was that shareholding was spread far more evenly across Britain than was the case after any previous public share issue by a Fife company: in 1930, 70% of the shares were held outwith Scotland.[79] Secondly, the war and post-war years saw the first major investments in the area by companies based elsewhere in the UK. The good harbour facilities and the ready supply of coal had led the British Aluminium Co. Ltd. to buy land at Burntisland in 1913, and by 1917 its new alumina plant was operational.[80] Three firms with factories in Fife were also taken over by English companies. In 1918, E.S. & A. Robinson Ltd., a paper-making family firm based in Bristol, acquired two paper making firms in the Leven valley, whilst in 1920, Warrillows Ltd., of Birmingham, bought the ordinary shares of J.A. Weir Ltd., which owned a factory at Strathendry.[81]

Both the revival of pre-war trends and the first indications of a new pattern of business development were brought to an abrupt halt by the recession of 1920/1 which marked a major break in the development of the business structure of the Kirkcaldy area. In many respects, the following period,

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[76] RoC: SCO10033/10, 14.
[77] Ibid., 26.
[78] SCO11107/20.
[79] Ibid., 38.
[80] B.A.C. The British Aluminium Company Limited, 1894-1955 (privately printed by the company, no date), p. 7.
[81] On E.S. & A. Robinson Ltd., see C. Harvey and J. Press 'Industrial Change and the Economic Life of Bristol since 1800' in C. Harvey and J. Press (eds) Studies in the Business History of Bristol (Bristol, 1988), pp. 17, 27-8; RoC: SCO03218/53.

which lasted into the mid-1950s, was one of stability in which the population of companies changed very little.

3.3.2 The Decline in the Rate of Turnover

As can be seen in figure 3.2, the number of new enterprises entering the Kirkcaldy area dropped in the period after 1920. Of the companies which in any survey up to that of 1960 held property valued at £250 or over in the valuation rolls, only 14 first appeared in the 1930, 1940 and 1950 lists. This number included the National Coal Board and the Wemyss Brick Co. Ltd., which was set up to run that part of the Wemyss enterprises which were not taken over when coal was nationalized. It also included one subsidiary set up by a Leven-based company and one old-established Kirkcaldy retail firm which branched out into manufacturing in 1945. Of the ten genuinely new entries, six were firms which were based outwith Fife. Of these the takeover of the Kirkcaldy firm of John Jeffrey & Co. by the Perth linen company of John Shields & Co. Ltd. in 1923 should probably be seen in the context of a trend dating back to the late nineteenth century for linen companies to move from outlying areas into Kirkcaldy in search of skilled labour.[82] Two companies with national interests, Fisons and United Glass, acquired local firms in 1936 and 1943 respectively and transferred the assets to the parent company in the late 1940s, and so count as new entries.[83] Finally, three new branch factories were opened: Thomas De La Rue Ltd., which acquired a mill at Strathendry near Leslie in the mid-1920s, and two others which opened after the war. The three locally-based companies included Robert Tullis, Junior, Ltd., which took over the bleachfield belonging to Tullis Russell Ltd. when the Tullis and Russell families parted ways, Central Farmers Ltd., a cooperative owned by local farmers and producing animal feedstuffs, and McDonald Engineers (Kirkcaldy) Ltd., an engineering company established during the Second World War. No information was found on the final new entry, Water Heating Systems Ltd.

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[82] SRO: BT2/3699/40. For instance, both Ireland and Wishart of Abernethy and W. Lumsden & Son of Freuchie acquired factories in Kirkcaldy around the turn of the century. Campbell, Vol. III, p. 144; Edinburgh Gazette, 1912, p. 1389.

[83] BT2/6903/71; BT2/18209/20.

What stands out from this list is the extremely low level of new ventures in Fife in the period between 1920 and 1950. This applies both to locally-based launches, which had been so important before 1920, and to the influx of outside companies, which was to become such a significant factor in the 1950s. In the thirty year period, at most three new concerns were started from nothing and four companies with no previous involvement in the Kirkcaldy area entered the region for the first time.

This decline in the 'birth' rate for new enterprises was paralleled by a fall in the 'death' rate. Figure 3.3 shows a peak in the number of exits in the 1920-1930 decade and this underlines the severity of the post-war slump in Fife. Thereafter the number of exits fell to a very low level: five (10% of total) companies with property valued at £250 or over appeared for the last time in the 1930 survey and five (10%) in the 1940 one. Of these ten, three were the coal companies taken over at nationalization and another two were the companies absorbed into Fisons and United Glass, referred to above. As figure 3.3 shows, the decline in the number of exits in the £50 to £250 bracket was even more marked. No strong bias towards specific industries is evident among the firms which did close. The only industry to disappear from the Kirkcaldy area in the inter-war years was pottery, and the larger exits in the 1920s included one coal company, one engineering firm, two paper firms, a whisky distillery, as well as the last pottery manufacturer and four linen firms. Livingstone identifies linen as an industry facing particular problems in the inter-war years, yet in 1950 there were still 12 firms engaged in the flax and linen industry in the Kirkcaldy area as compared to 18 in 1920.[84]

3.3.3 'Over-Commitment' and New Entries

As was explained in the Introduction, our picture of regional development in the inter-war years is dominated by the contrast drawn between a buoyant 'Inner Britain' of the South-East and Midlands in which new industries provided the 'pacesetters' to Britain's industrial regeneration, and an 'Outer Britain' of the North and West in which an 'over-commitment' to the

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[84] P.K. Livingstone Flax and Linen in Fife Through the Ages (Kirkcaldy, 1952) p. 22.

traditional staple industries led to economic stagnation.[85] A number of reasons are given to explain the development of the new industries in 'Inner' rather than 'Outer Britain'. One relates to demand. As Lee writes, proximity to markets is a significant factor for industries producing for final consumer demand. Many of the new industries fell into this category. For them, the size and wealth of the London market made a location in south-eastern Britain preferable.[86] Foreman-Peck, in his study of new firm formation in the inter-war years, uses the same argument to explain the South-East's disproportionate share of new firms: the wealth of London, the Midlands and even the Manchester area made them more attractive to new entrepreneurs in both the service and manufacturing sectors than other areas of England and Wales.[87] In terms of Scotland, Lee argues that the small size of the service sector in most of Scotland meant that the salaried middle class was small and this affected the demand for consumer goods.[88]

If the pattern of demand is seen as major cause for regional disparities in the inter-war years, supply factors are also cited. Heim argues that capital was relatively immobile in this period. Few British companies possessed the organisational capacity to operate branch plants at a distance from their head offices, and those that did, were chiefly anxious to tap new sources of labour in the rural areas and market towns of southern England which had not previously been incorporated into the industrial process.[89] As Foreman-Peck writes, there was little incentive to move to the older industrial areas in the inter-war years: adequate supplies of labour were available in the Midlands and South and 'the unemployed of "outer" Britain were neither noticeably docile nor productive'.[90] Thoms and Donnelly explain the development of the cycle and car industries in Coventry in the

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[85] See, in particular, H.W. Richardson Economic Recovery in Britain, 1932-9 (London, 1967), pp. 94, 266-79, 294-8; C.H. Lee Regional Economic Growth in the United Kingdom Since the 1880s (Maidenhead, 1971), Chs. 7 and 8; S.V. Ward The Geography of Interwar Britain: The State and Uneven Development (London, 1988), pp. 3-14.

[86] Lee,, pp. 67-9; see also Richardson, p. 277.

[87] J.S. Foreman-Peck 'Seedcorn or Chaff? New Firm Formation and the Performance of the Inter-war Economy' Economic History Review, 38, 1985, pp. 414-9.

[88] C.H. Lee 'Modern Economic Growth and Structural Change in Scotland: The Service Sector Reconsidered', Scottish Economic and Social History, 3, 1983, pp. 14-23.

[89] C. Heim 'Industrial Organization and Regional Development in Interwar Britain' Journal of Economic History, 43, 1983, pp. 934-5; ibid., 'Structural Transformation and the Demand for New Labour in Advanced Economies: Interwar Britain' Journal of Economic History, 44, 1984, pp. 585-95.

[90] Foreman-Peck, pp. 413-4.

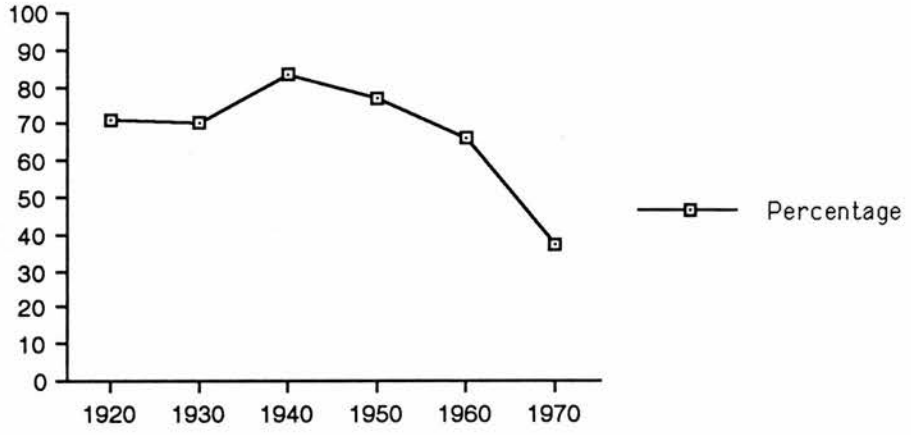
first decades of the century in terms of the collapse of the old ribbon-weaving and watch-making industries and the consequent availability of labour and factory space. They also suggest another factor later came into play: once boom conditions had been created, growth developed its own momentum with the launch of new companies supplying the motor and engineering industries.[91] Heim too argues that this momentum was a factor of increasing importance in accounting for the regional disparities in industrial development: 'particularly by the 1930s, many of these industries were not really so "new" anymore, and barriers to entry had risen after the relatively easy entry of the 1920s or earlier'.[92]

This model of a two-nation Britain in which Fife with the rest of Scotland is consigned to an 'Outer Britain' does provide some useful insights into the experience of the area in the inter-war years. It is at its most helpful in explaining the limited outside investment in Fife in the period before 1939. Distant from the markets of the South-East of England, and relatively isolated from the south by the Firth of Forth, Fife probably possessed few attractions to mobile capital in this period. As was explored in the Introduction, male unemployment was relatively low by Scottish standards, and was concentrated in the mining villages which had a well-deserved reputation for industrial militancy.[93] Fife workers, generally, were not noticeably docile. The example of one of the few incoming firms is instructive: according to the company history, De La Rue shifted production of fountain pens north to escape the powerful unions in London, but the trade unions rapidly established themselves in Leslie too.[94]

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[91] Thoms & Donnelly in B. Lancaster and T. Mason (eds) Life and Labour in a Twentieth Century City: the Experience of Coventry (Coventry, 1986) pp. 18-19, 24.
[92] C. Heim 'Uneven Regional Development in Interwar Britain' Diss. Summary, Journal of Economic History, 43, 1983, p. 275. See also Heim 'Industrial Organization', pp. 943-6.
[93] On the political militancy of Fife miners see I. McDougall (ed.) Militant Miners. Recollections of John McArthur, Buckhaven and Letters, 1924-1926, of David Proudfoot, Methil to G. Allen Hutt (Edinburgh, 1981) and S. Macintyre Little Moscows. Communism and Working Class Militancy in Inter-War Britain (London, 1980), esp. Ch. 3.
[94] L. Houseman The House that Thomas Built. The Story of De La Rue (London, 1968), p. 164.

Figure 3.6: Percentage of Enterprises Active in the Kirkcaldy Area for 20 Years and Over

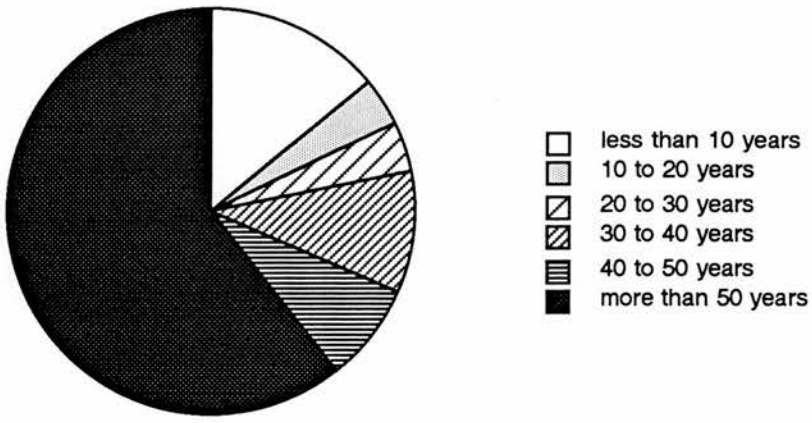


Note: Percentage of all enterprises with manufacturing or coal-mining property in the Kirkcaldy area valued at £50 or over (£300 in 1970) which had appeared in the two previous surveys. Source: See Table 2.4.

It is also undeniable that the local economy remained dominated by established enterprises and industries. The effect of the decline in the entry and exit rates from business was to leave the area increasingly dependent on existing firms. This can be seen in figure 3.6 which shows the percentage in each survey of enterprises using property valued at £50 or more and active in the Kirkcaldy area for over 20 years. As can be seen, the proportion of enterprises which had been active for 20 years or more rose in the inter-war years and peaked in 1940 at 83% in 1940. In 1950, as figure 3.7 illustrates, 60% of the larger companies with manufacturing premises in the Kirkcaldy area had been there for 50 years or more. The low rate of turnover in the stock of enterprises even seems to have affected the smallest firms - those using property valued under £50. Using the separate listing of 'Industrial' properties under the 1928 Rating and Valuation (Apportionment) Act, small firms listed as using such premises in the 1950/1 valuation roll for the burgh of Kirkcaldy were traced back through previous surveys. Of 58 enterprises listed in 1950 as using industrial premises valued at under £50, 28 had appeared in the 1920 valuation roll and a further 7 in 1930. If this suggests a higher turnover rate

than for the larger enterprises, it was very different from the rates which appear to have existed in the Victorian period.[95]

Figure 3.7: Age of Enterprises in 1950



Note: percentage of all enterprises in1950 with manufacturing or coal-mining property in the Kirkcaldy area valued at £250 or over, classified by the number of years active in the area.
Source: see Table 2.4.

The stability in the stock of enterprises also had implications for the range of industries present in the area. In Fife, as presumably elsewhere, new companies were far more likely to enter new industries than old ones. Although a number of existing companies branched out into the manufacture of products related to ones they were already producing, the only wholly new industries to be introduced into the Kirkcaldy area in the inter-war years, carpets and plastic goods, were brought in by two new companies, James Meikle & Co. and Thomas De La Rue Ltd. The result was that the Kirkcaldy area remained largely committed to the range of industries - and the companies - which had established themselves in the region before 1920. In 1950, as in 1910, if firms are classed by industrial order, the largest numbers fell in the textile and food and drink categories. Other categories, such as chemicals, vehicles and precision instruments (both classed separately in 1950) were virtually or entirely unrepresented.

Yet the value of the term 'over-commitment' to explaining this bias is open to question. Firstly, as Buxton points out, there is a tautological danger that

[95] SRO: VR 50/40, 50, 60, 70.

'new' industries are simply defined as growing ones.[96] Whilst some of the industries of the Kirkcaldy area, such as linen and coal, fit the usual image of Britain's traditional export-oriented industries, others, such as paper and linoleum, properly belong in the category of new or consumer-oriented ones. If such industries continued to figure strongly in the local economy, this was surely a sign of strength and not of weakness. Linoleum, for instance, had always been produced primarily for home consumption, demand rose in the inter-war years, and the Kirkcaldy firms were able to compete successfully in the London market.[97]

Secondly, the term 'over-commitment' suggests that the survival of existing industries prevented the diversification of the local economy. The coincidence of the decline in the business entry and exit rates makes the idea of a linkage between the two tempting and some connection seems probable. Hudson points to the high failure rate amongst infant firms in this period, so that a drop in the enterprise 'birth' rate is likely to have reduced the 'death' rate.[98] It also seems likely that barriers to entry created by existing firms were a significant factor in explaining the small number of incoming firms in the years after 1945. The demands of the coal industry made the labour market very tight and the government was anxious to direct industry to other parts of Scotland, and chiefly the Glasgow area.[99] In 1955, the President of the Kirkcaldy Chamber of Commerce informed the Annual General Meeting that unemployment in Kirkcaldy was the lowest in Scotland and that:

> This meant that local firms had from time to time experienced difficulty in obtaining all the labour they required, but it seemed unlikely that lack of labour had seriously interfered with current production, although it may have held up the extension of established industries and discouraged the introduction of new industries into the district.[100]

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[96] N. Buxton 'The Role of the "New" industries in Britain During the 1930s: A Reinterpretation' Business History Review, 49, 1975, p. 205

[97] A. Muir Nairns of Kirkcaldy (Cambridge, 1956), pp. 67-8, 78-9, 111-2.

[98] See J. Hudson 'The Birth and Death of Firms in England and Wales During the Inter-War Years', Business History, 31, 1989, p.103.

[99] See, for instance, FRCR, Fife Planning Committee Minute Book, 2, 4.7.1949 Minutes of a Meeting with Mr T. Fraser, MP, Parliamentary Under Secretary of State.

[100] Kirkcaldy Chamber of Commerce, Minute Book No. 4 16.5.1956.

It is, however, more difficult to argue that existing firms inhibited the development of new ones in the inter-war years. As we have seen, most new enterprise in the Kirkcaldy area before 1920 was not the result of outside investment but was undertaken by local entrepreneurs using capital raised in Fife and the Lothians. Existing firms had not deterred new ones from entering the same or other industries - indeed, as we have seen, their very success had encouraged others or led to the development of ancillary industries. If the survival of existing industries had a deterrent effect after 1920, this requires further explanation. Labour and premises continued to be at least as available as previously and Edinburgh, which had previously supplied so much capital, remained an island of prosperity in Scotland throughout the inter-war years.[101] Moreover, industrial capital in Fife, as elsewhere, remained locally bound. There is little evidence in either the RoC files or in the company papers consulted to indicate that Kirkcaldy firms were opening factories in other regions. Indeed, Oakley in his survey of Scottish industry in the 1930s makes much of two examples of established local companies bringing new investment into Fife. He describes the Leven firm of Henry Balfour & Co. Ltd. which had recently merged with a London company, 'the arrangement was that the London works would be closed and all production carried out at Leven', and the decision of Michael Nairn & Greenwich Ltd. to transfer the production of inlaid linoleum from Greenwich to Kirkcaldy.[102] For these local firms at least, Fife remained the preferred industrial location.

The small number of new local ventures in the inter-war years needs probably to be explained in terms of an absence of perceived opportunities. Some evidence of this is provided by the very small number of public share issues made by manufacturing and mining companies based in the Kirkcaldy area during the period between the 1920s and the 1950s. Whereas in the period between 1890 and 1920 capital for a number of new companies was raised by public subscription, there were virtually no new share issues by firms in the Kirkcaldy area between the flotation of the Boase Spinning Co. (1920) Ltd. in 1920 and the mid-1950s. Here again, the recession of 1920/1 appears to have marked a major turning point. Although many existing firms thereafter adopted limited liability and the

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[101] See Lee 'Structural Change in Scotland', p. 26.
[102] C.A. Oakley Scottish Industry Today (Edinburgh, 1937), pp. 100-102.

number of registered companies rose from survey to survey, so that by 1950 unlimited enterprises were very much the exception, virtually every manufacturing enterprise based in the Kirkcaldy area which incorporated after 1920 adopted private company status. The only exception was the Fife Coast Laundries Ltd., registered in 1935, with a nominal capital of £6,000 and property valued at £92.5 in the 1940/1 valuation roll.[103] No other attempt appears to have been made to raise capital from the public for new launches.

It also appears that existing companies made few further appeals to the public for capital in this period. Only two major public share issues by companies based in the Kirkcaldy area were identified for the period between 1920 and the mid-1950s, and neither appears to have been to finance major investments in the region. Michael Nairn & Greenwich Ltd., the holding company for both Nairns and the Greenwich Inlaid Linoleum Co. Ltd., raised £337,500 in 1926, but the timing suggests that this may have been for the troubled Greenwich company.[104] In 1935, the Wemyss Collieries Trust Ltd. raised £100,000 with a 4% Mortgage Debenture Stock issue to acquire from the Wemyss family the feu-duty rights to the coal on the estates, a move which may have been related to the imminent nationalization of coal royalties.[105] The other companies which had made the greatest calls on the stock exchange in the period before 1914 - Barry's, and the Fife and Wemyss coal companies - made no further public issues in the inter-war years. The picture was no different among the smaller companies: whereas prior to the First World War it had been quite common for many companies to issue small batches of shares for cash to existing or new shareholders, this procedure appears to have largely fallen into abeyance after 1920. Increases in capital after 1920 used capitalized reserves to make bonus issues to existing shareholders.

The term 'over-commitment', then, may describe the industrial structure, but does not really explain the lack of new entries in the Kirkcaldy area in the

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[103] SRO: BT1/56; VR50/60.

[104] Stock Exchange Official Intelligence, 1930, p. 905; Muir Nairns, p. 117.

[105] RoC: SCO03626/75. See also I. Brunskill, B. Fine and M. Prevezer 'The Ownership of Coal Royalties in Scotland' Scottish Economic and Social History, 5, 1985, who indicate that the Wemyss Collieries Trust Ltd. received the largest amount of compensation for any coal company in Britain.

inter-war years. Although it seems likely that barriers to entry were more significant during and after the Second World War, an explanation for the small number of new ventures by local capital before 1939 would probably need to concentrate on the reasons why so few opportunities for new investment were seen in this period. A similar problem is raised when the argument is used to explore the resilience of firms which were already established: it is little help in explaining how or why firms were able to survive. In a recent article, Broadberry and Crafts write that 'exit in the interwar British economy clearly deserves further research' and suggest that it might be discussed in terms of 'barriers to exit'.[106] Yet the collusive price-fixing agreements between firms which they emphasize, although probably of great significance, were surely less of a 'barrier' in the classical sense of a cost on departure than a strategy devised by businessmen to improve the chances of survival. The dual economy argument rightly draws attention to the diverging experiences of different areas of the United Kingdom in the inter-war years, but an attempt to understand why local economies in areas like Fife continued to be dominated by existing firms needs to examine the dynamics of local business as well as the structure of industry. The theme will be returned to in future chapters.

[106] S.N. Broadberry and N.F.R. Crafts 'Britain's Neglected Productivity Gap in the 1930s: Some Neglected Factors' Journal of Economic History, 52, 1992, esp. pp. 545-6.

Table 3.2: Ownership of Manufacturing Enterprises in 1950 (Percentages)

Name of company	Within 5kms of Works	Fife	Fife & Lothian	Scotland	Main Share holder	& Family	Board
Michael Nairn & Co. Ltd.*	11	20	20	20	7	20	20
Barry, Ostlere & Shepherd Ltd.							
Tullis, Russell & Co. Ltd.	25	88	88	100	25	100	100
British Aluminium Co. Ltd.							
Distillers Co. Ltd.							
Smith, Anderson & Co. Ltd.	46	95	100	100	25	100	100
John Haig & Co. Ltd.							S
Robt. Hutchison & Co. Ltd.	19	39	88	88	12	65	65
Burntisland Shipb. Co. Ltd.*	4	27	57	80	3	3	7
Boase Spinning Co. (1920) Ltd.				7	32	39	
John Fergus & Co. Ltd.	100	100	100	100	50	90	100
Henry Balfour & Co. Ltd.							
Natl. Steel Foundry (14) Ltd.	4	4	23	28	56	58	92
Fife Paper Mills Ltd.	0	0	0	0	0	0	S
A.H. M'Intosh & Co. Ltd.	83	94	100	100	32	97	97
Central Farmers Ltd.							
Robt. Wemyss & Co. Ltd.	35	35	61	87	26	52	83
Forth & Clyde Roperie Co.	100	100	100	100	100	100	100
E.M.P. Ltd.						S	
N. & N. Lockhart Ltd.							
Fife Forge Co. Ltd.	79	79	88	98	31	98	100
Thos. De La Rue Ltd.							
Andrew Blyth & Co.	100	100	100	100	100	100	100
Robert Stocks & Co. Ltd.							
Allen Lithographic Co. Ltd.	56	56	67	74	31	56	76
Jas. Donaldson & Co. Ltd.	65	100	100	100	32	92	95
Peter Greig & Co.		100	100	100		100	100
W. Lumsden & Son Ltd.	1	66	66	66	48	98	100
Jas. Hogarth Cl. Flour Mills Ltd.							
N. Lockhart & Sons Ltd.	58	58	58	58	51	93	100
British Oil & Cake Mills Ltd.							
Beatties Bakeries Ltd.							
United Glass Ltd.							
Ireland & Wishart Ltd.	67	94	96	96	24	66	99
Robt. Tullis, Junr. Ltd.	10	100	100	100	80	90	100
G. & J. Johnston (W.) Ltd.	0	38	38	93	30	61	100
Jas. Meikle & Co. Ltd.	100	100	100	100	37	100	100
Melville-Brodie Engineering Co.					100	100	
Methil Brick Co. Ltd.	72	76	99	100	12	47	49
Fisons Ltd.							
John Balfour & Co. Ltd.	88	98	100	100	50	83	86

Table 3.2: Ownership of Manufacturing Enterprises in 1950 (Percentages) Continued

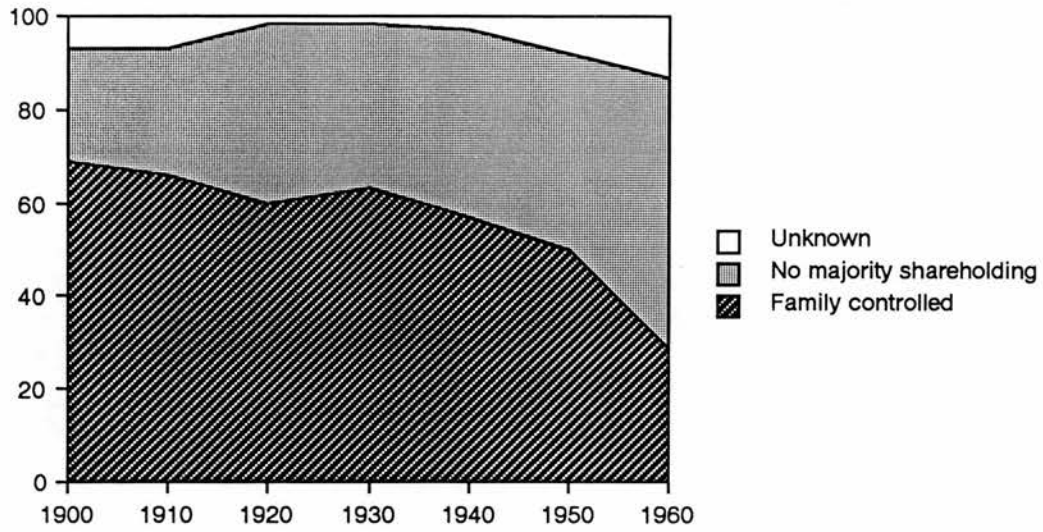
Name of company	Within 5kms of Works	Fife	Fife & Lothian	Scotland	Main Share holder	& Family	Board
Matthew Spears & Co. Ltd							
D. & H. Ferguson Ltd.							
McDonald Engineers (K.) Ltd.	0	75	75	75	55	65	80
Robt. Kilgour	100	100	100	100		100	100
Wm Gibson & Co. Ltd.	1	31	34	34	25	35	35
Alex Bruce & Co.	0	0	0	100	100	100	100

Notes: Percentage of shares held by shareholders in each category.
Note that figures for geographical spread of ownership and for kinship links are cumulative (ie. category Fife includes within 5km). Blank spaces indicate insufficient data. S indicates company is a subsidiary.
* 80% of the shares in Michael Nairn & Co. Ltd. were held by M. Nairn & Greenwich Ltd. in which the Nairn family had a majority holding. Burntisland Shipbuilding Co. Ltd. figures are for 1949.
Source: see Table 2.4.

3.3.4 Ownership and Concentration

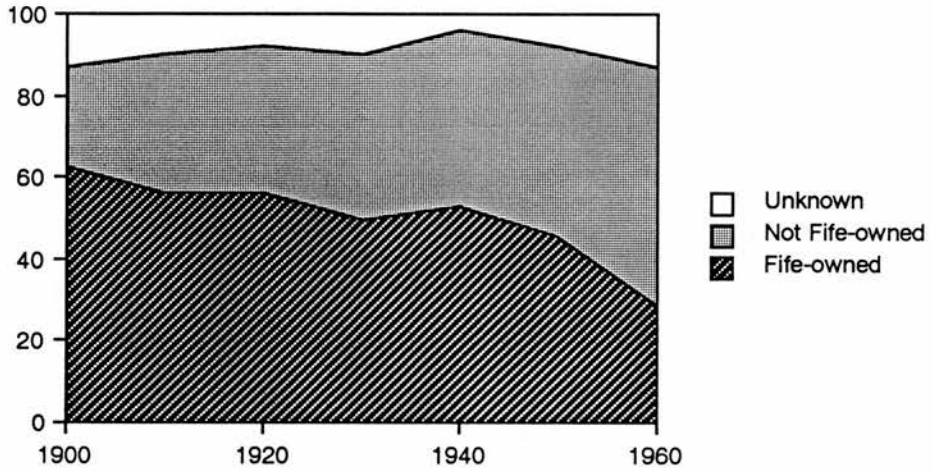
The stability in the stock of companies and the small number of public share issues meant that industry in the Kirkcaldy area continued to be dominated by family-owned and locally-based firms. Figures 3.8 and 3.9 show the proportion of firms in which over half the shares were held by related individuals and by shareholders with addresses in Fife respectively and show that in both cases there was only a very gradual dilution of control before 1950. Table 3.2 gives more detailed figures for that year. As in table 3.1, the gaps include both branch factories of national companies for which no data was collected and a number of unincorporated partnerships for which a detailed breakdown of ownership was unavailable. It is clear that both in terms of residence and of kinship ties, ownership was more widely spread than in 1910, but the table shows that in 1950 in at least 18 out of the 28 largest manufacturing companies in the area for which detailed evidence is available, locally resident family members still held a majority of the shares, and in a further 4 a majority of the shares were held by residents of Fife and the Lothians.

Figure 3.8: Percentage of Enterprises Which Were 'Family-Owned'



Note: Percentage of all enterprises with manufacturing or coal-mining property in the Kirkcaldy area valued at £250 or over in which a majority of the shares were held by related individuals.
Source: See Table 2.4.

Figure 3.9: Percentage of Enterprises Which Were 'Fife-Owned'



Note: Percentage of all enterprises with manufacturing or coal-mining property in the Kirkcaldy area valued at £250 or over in which a majority of the shares were held by individuals with addresses in Fife.
Source: See Table 2.4.

If the overall dilution of ownership was gradual, a comparison of the two tables does show one significant difference. Whereas the table for 1910 is dominated by companies in which single individuals and shareholders living within close proximity of the works had a majority of the shares, the first and fifth column of table 3.2 show this was far less common by 1950. In terms of kinship ties, inheritance patterns had diluted the overall control exercised by those who founded and incorporated companies, so that only six of the firms for which information is available had a majority shareholder in 1950. The significance of this development will be explored in Chapter Four. In terms of residence, an increasing number of manufacturers and their families no longer lived immediately beside their works. Thus whilst in 1900, all the leading members of the Nairn family lived inside the burghs of Kirkcaldy and Dysart, by 1930, the four directors who were members of the Nairn family had bought estates in Elie, Leslie, Kingskettle and Springfield respectively.[107] In this case, as in most others, owning families remained resident within the county. Where a majority of family shares were held outwith Fife, it was usually because the accidents of succession had left the family without an obvious heir. The linen firm of Robert Wemyss & Co. Ltd. illustrates the problem. The company was incorporated in 1913, and the two former partners, Robert Patterson and James Reekie, became directors and principal shareholders, so that in 1920 77% of all shares were held in Kirkcaldy. After his death, Patterson's shares passed to two women, both called Patterson and presumably his sisters, neither of whom lived in Fife, whilst of Reekie's three children, only one unmarried daughter lived in Kirkcaldy. The result was that by 1940 only 21% of the shares were held in Fife and the company was run by professional managers.[108]

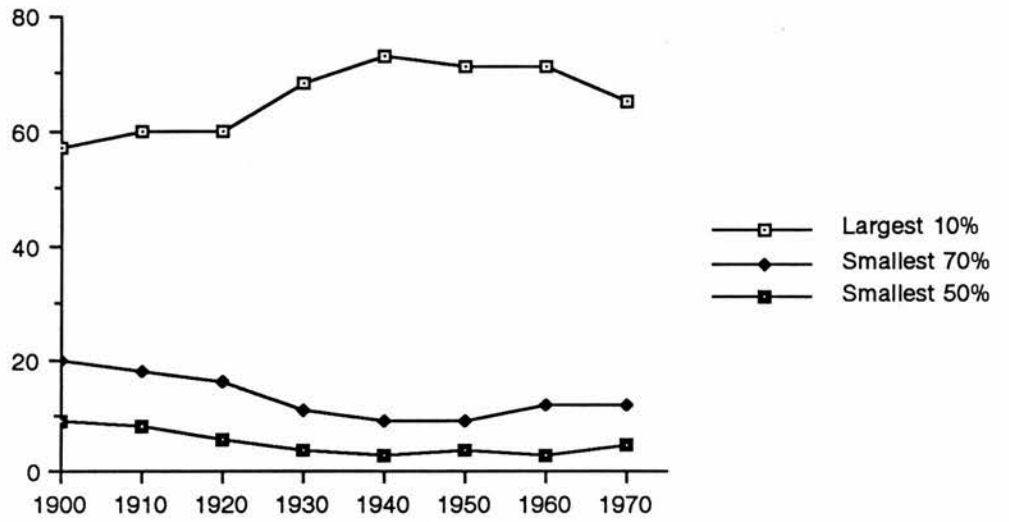
Before leaving the period between 1920 and the mid 1950s, it is important to note one respect in which this period did see significant change. As can be seen from figure 3.10, the period saw a dramatic increase in the share of the total rateable value of manufacturing premises in the area which were owned or rented by the largest firms (the table does not include coal-mining companies since the figures are not comparable). It can be seen that the proportion held by the largest 10% of companies rose from 57% in 1900

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[107] SRO: BT2/2498/13, 78.
[108] BT2/8826/16 & 52.

and 60% in 1910 to 73% in 1940. This increase was largely at the expense of the smallest companies: the share held by the smallest 50% of companies dropped from 8% in 1910 to 3.5% in 1940, whilst that of the smallest 70% dropped from 18% to 9%.

Figure 3.10: Distribution of Manufacturing Property by size of Enterprise



Note: Percentage of all manufacturing property in the Kirkcaldy area held by the largest and smallest enterprises (size of enterprise based on rateable value of manufacturing property held).
Source: See Table 2.4.

According to Hannah, the 1920s saw a rapid rise in the proportion of manufacturing output controlled by the largest companies, an increase which he ascribes chiefly to the merger wave of the decade.[109] Perhaps because of the significance of merger activity in the linoleum and coal industries before the First World War, it was not a major factor in Fife in the inter-war years. Apart from the acquisition by Nairns of the premises of the loss-making Fife Linoleum Co. Ltd. in 1933,[110] there were no further Fife or indeed Scottish mergers in the industry after 1900, although both Nairns and Barrys merged with English firms in the 1920s. In the coal industry, the Fife Coal Co. Ltd., took over the Earl of Rosslyn Collieries Ltd. in 1923, but was to absorb only one further minor company thereafter.[111] The only other

[109] Hannah, Ch. 7.
[110] Muir Nairns, p. 125.
[111] Muir The Fife Coal Company, pp. 124-5.

industry where rationalization led to a reduction in the number of enterprises was the whisky industry, where Distillers acquired a majority control of both Scottish Malt Distillers Ltd. and John Haig & Co. Ltd. immediately after the First World War.

The growing concentration of productive capacity in the Kirkcaldy area was therefore largely due to internal growth. By 1920, the area was dominated by a small group of large firms, some of which grew from decade to decade. For the manufacturing companies, the total valuations of their industrial property give some indication of this. Eight of the ten largest manufacturing firms in 1920 were still among the top ten in 1950 and the other two were 11th and 15th. In nearly all cases, the rateable value of the property of this elite of firms had grown steadily. In three cases, the rateable values more than doubled over the three decades, and in a further four they had increased by more than 50%, whilst only one had an increase of under 10%. Smaller firms rarely matched this rate of growth. Of the 18 companies which were in the £200 to £900 range in 1920 and which were still extant in 1950, only eight had seen increases of 50% or over and these included two which had become subsidiaries. At the other extreme, six had seen the value of their property increase by less than 10%.

These statistics indicate both the increasing dependence of the local economy on established companies during this long period between the 1920 recession and the mid-1950s, but also the continued vitality of at least some of these firms. This is perhaps indicative of the mixed experience of the local economy in this period. Some features of the structure of business in the Kirkcaldy area, such as the low entry rate into business, or the failure to diversify into new industries, were ominous in terms of the future development of the economy. Yet the survival of so many local enterprises and the continuing expansion of of at least some of them make it difficult to dismiss the economy as in crisis.

3. 4 Restructuring: ca. 1955-70

3.4.1 Change and the Ownership of Industry

If the period between the end of the post-war boom in 1920 and the mid-1950s was characterised by the low level of change in the business structure of the Kirkcaldy area, the period around 1960 was dramatically different. Warde uses Massey's term of 'industrial restructuring' to describe a similar period of change in his study of Lancaster.[112] Massey speaks of 'a series of "rounds" of new investment, in each of which a new form of spatial division of labour is evolved' and points to the significance of moments when shifts in the division of labour result in 'a new form and spatial distribution of inequality in the condition of production, as a basis for the next "round" of investment'.[113]

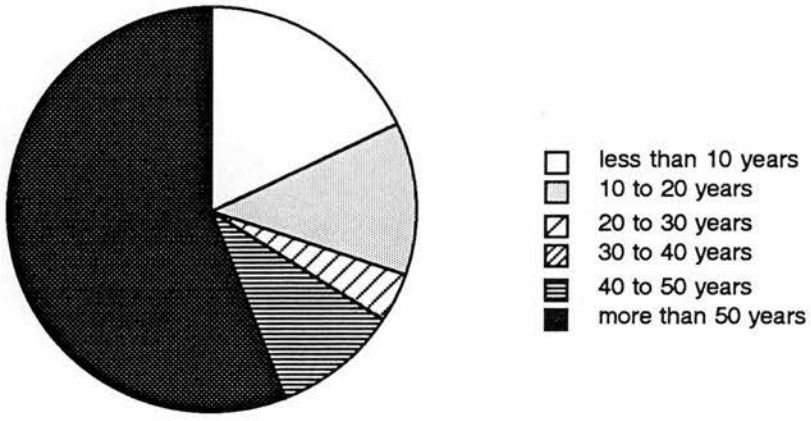
The most obvious features of this restructuring were the dramatic increases in the exit and entry rates for companies in the Kirkcaldy area, which has previously been identified by McNeil[114] and which are clearly demonstrated by figures 3.2 and 3.3. Whilst only 13% of the enterprises with property worth £50 or more in the 1940 survey did not appear in 1950, 24% and 32% of the companies in the 1950 and 1960 list respectively were not there 10 years later. The increase in the proportion of the companies appearing for the first time showed an even more dramatic increase from 17% in 1950 to 24% in 1960 and 56% in 1970. As can be seen in figure 3.6, the effect of this much higher rate of turnover was a marked reduction in the average timespan in which manufacturing enterprises had been active in the Kirkcaldy area. Figure 3.11 classifies enterprises with property valued at £250 in 1960 by the length of their involvement, whilst figure 3.12 does the same for enterprises in 1970 with property valued at £1500 or more. A comparison of these two pie-charts with figure 3.7 for 1950 shows the percentage of companies which had been manufacturing in the area for 50

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[112] A. Warde 'Conditions of Dependence. Working-Class Quiescence in Lancaster in the Twentieth Century' International Review of Social History, 35, 1990, p. 101.
[113] D. Massey 'In What Sense a Regional Problem?' Regional Studies, 13, 1979, pp. 234-5.
[114] J. McNeil 'Factors in Industrial Location: The Fife Case 1958-71' Scottish Geographical Magazine, 90, 1974, p. 185.

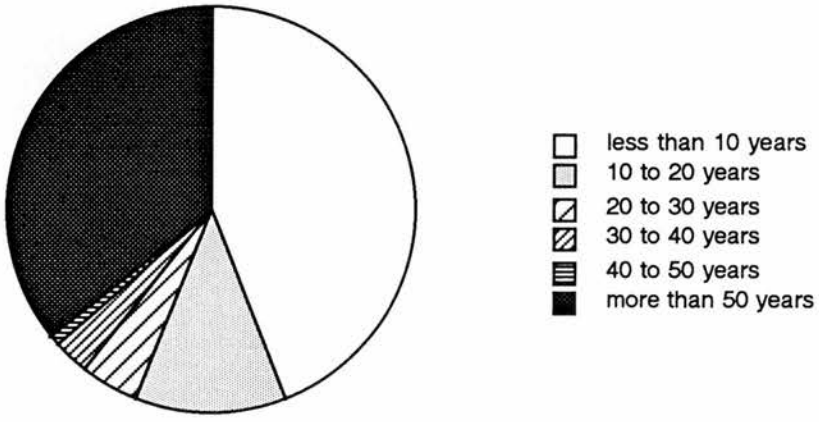
years or more dropped from 60% in 1950 to 35% in 1970, whilst those with less than 10 years history rose from 14% to 44% in the same period.

Figure 3.11: Age of Enterprises in 1960



Note: Percentage of all enterprises in 1960 with manufacturing or coal-mining property in the Kirkcaldy area valued at £250 or over, classified by the number of years active in the area.
Source: See Table 2.4.

Figure 3.12: Age of Enterprises in 1970



Note: Percentage of all enterprises in 1970 with manufacturing or coal-mining property in the Kirkcaldy area valued at £1500 or over, classified by the number of years active in the area.
Source: See Table 2.4.

There were also significant differences between the enterprises which ceased to manufacture in the area and the ones which took their place. The departing companies included many Fife-based and family firms. Using once again rateable value as a measure of size, the 20 largest firms to close operations in Fife between 1950 and 1970 included thirteen enterprises with their headquarters in the Kirkcaldy area, of which nine were family firms in which the owning family lived in Fife. For most of them, the closure of their operations in the Kirkcaldy area meant an end to manufacturing and the winding up of the company. Although in none of the companies investigated were liquidations other than voluntary, in some cases, closure followed years of poor trading and the final settlement revealed a company bankrupt in all but name. John Balfour & Co. Ltd. closed in 1956 with preference dividends in arrears since 1942, and debts which exceeded its total capital.[115] William Gibson & Co. Ltd. was wound up in 1953 with unpaid preference dividends of £19,783, and the unsecured creditors only received 14/3 per pound in the liquidation.[116] In other cases, there is little evidence in the company files that the company was in difficulty and liquidation resulted in considerable pay-outs to the shareholders. When the linen manufacturing company of Robert Wemyss & Co. Ltd. was wound up in 1956, the ordinary shareholders received £25 13/8 per £10 share, whilst shareholders in Robert Tullis, Junior, Ltd., bleachers got £1 15/9.5 per £1 share.[117] Significantly, however, in both cases, liquidation was expedited by the demand for their property. The Tullis bleachfield was required by the Tullis Russell & Co. Ltd. paper mill which surrounded it, whilst in the case of Robert Wemyss & Co. Ltd., their prime site in Kirkcaldy's inner suburbs was sold to the carpet firm of James Meikle & Co. Ltd. for £85,000, and this represented 73% of the money distributed by the liquidator.[118] Where no demand for the land existed, liquidation was less easy: the board of William Gibson & Co. Ltd. was actively looking for a buyer willing to take over the company as a going concern as early as 1952, but in 1957 received just £6,750 for the site when it was acquired by the burgh council.[119] In the case of John Fergus & Co.

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115 SRO: BT2/8912/87.
116 BT2/7467/97 & 101.
117 BT2/8826/78; BT2/13825/52.
118 C.D.M. Ketelbey Tullis, Russell 1809-1959 (Markinch, 1967) p. 278; SRO: BT2/8826/78.
119 BT2/7467/94 & 101.

Ltd., which was liquidated in 1957, problems in disposing of the land delayed a final winding up settlement until 1963.[120] For the linen companies in particular, antiquated machinery and an industry in decline meant that there was little interest in their productive capacity.

It is difficult to be as precise about the ownership of the companies entering Fife in this period. Information on many of them was derived from the Stock Exchange Yearbook and the Kompass directory and this did not provide the detailed data of the Register of Company files.[121] However, there were marked differences between the larger and the smaller enterprises. Many of the new entries were comparatively small and these appear to have included many privately owned and presumably locally-based firms. The larger new entries, on the other hand, included very few new launches, Fife-based or family firms. In many cases the new factories were branch plants of large, established concerns based in England or, in the case of a significant minority of them, the United States. Between 1950 and 1970, of the 20 largest incoming companies measured according to their rateable values, six were subsidiaries or branch factories of US concerns or had a significant US participation. A further seven were English-based and the final seven included four based in Dundee and one in Motherwell.

The chronology of events shows that the influx of outside capital was the result and not a cause of the failure of local industry. It was only in 1957, after the failure of the Rothes coal-mine and with rising unemployment in the area, that the Glenrothes Development Corporation received permission to build purpose-built factories and encourage businesses to locate in the New Town.[122] Kirkcaldy Town Council also set up a taskforce with the goal of attracting new industry to replace its declining base after the closure of Barry's in 1963.[123] Pocock stresses the role played by Development Area status, granted in 1960 in encouraging inward investment and argues that the combination of the availability of skilled

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120 BT2/13825/46 & 52.

121 Kompass Register of British Commerce and Industry (East Grinstead, 1970). Although this gives details on the ultimate ownership of subsidiaries, the negative - that a company was not owned elsewhere - is harder to demonstrate. Private companies are not, of course, listed in the Stock Exchange Yearbook.

122 GDC: Glenrothes Development Corporation Annual Report 1957; K. Ferguson A History of Glenrothes (Glenrothes, no date), pp.77-80.

123 The Scotsman 19.7.67.

labour, suitable factory space and government action made Fife a favoured location for industrialists seeking new production sites.[124]

If it was the failure of local industry which first opened the way to outside firms, the process, once started, compounded the problems of established companies. Morris and Smyth argue that the paternalist employment strategies of Fife family firms collapsed in the 1950s since 'many workers preferred the minimal level of welfare capitalism provided by the new firms to the demanding involvement of the paternalists'.[125] Foster and Woolfson stress the impact that the higher wages paid by American companies had on Scottish employers.[126] In 1968, the annual report of the chairman of N. Lockhart & Sons Ltd., T.K. Lockhart was quite open about the consequences of inward investment for his firm:

> New industries brought into the area have continued to take our workers and there are now, in fact, no unemployed workers in the area who really want to work. . . . The only way to retain our best workers has been to pay them more money and this has resulted in a "Wage Drift" which has outstripped officially negotiated wage rises and also, as will be seen by the reduction in Profit, outstripped our costing estimates.[127]

The changing age structure of the stock of enterprises in the Kirkcaldy area demonstrated by figures 3.11 and 3.12 in fact understates the level of outside intervention in the local economy because it hides both the increase in outside investment in existing companies and the number of takeovers which affected companies in Fife in this period. In the 1950s, after a gap of thirty years, a few of the most dynamic Fife companies turned once again to the capital market as a source of investment. One such company was Henry Balfour & Co. Ltd. which in the period until 1926 had raised capital by selling small batches of shares to existing shareholders or other local inhabitants. From 1950 on, prospectuses were issued to sell convertible loan stock and ordinary shares to the public. Whereas in 1950 the issued share capital was £80,000, by 1960 it had risen to £275,000, of

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[124] D.C. Pocock 'Economic Renewal: the Example of Fife' Scottish Geographical Magazine, 86, 1970; see also McNeil, pp. 185-197.
[125] R.J. Morris and J. Smyth 'Paternalism as an Employer Strategy, 1800-1960' in J. Rubery and F. Wilkinson Employer Strategy and the Labour Market (Oxford, 1994), p. 220.
[126] J Foster and C. Woolfson The Politics of the UCS Work-In (London, 1986), pp.43-6.
[127] Roc: SCO15658/63.

which over £100,000 had been subscribed. Many of these shares were acquired by Edinburgh-based investment trusts, and they held more than half the shares in 1960.[128] In 1958, the private company status of the Fife Forge Co. Ltd. was dropped, it was floated as a public company and shares were sold on the Glasgow and Edinburgh stock exchanges.[129]

More companies were affected by the renewed interest in takeovers. It will be recalled that after a flurry of activity in the years immediately following the First World War, very few enterprises in the Kirkcaldy area were acquired by other companies, be they based in Fife or elsewhere. This began to change in the early 1950s. In 1951, the Burntisland Shipbuilding Co. Ltd. was acquired by the Alto Parana Development Co. Ltd, itself controlled by the London merchant bank Rea Bros Ltd., and during the course of the decade it was followed into outside ownership by such other major Fife companies as Robert Kilgour & Co. Ltd. and The National Steel Foundry (1914) Ltd. Whilst in some cases, takeover was followed by substantial investment, in other cases it appears that it was simply the liquid assets which attracted interest. For Sir Wilfrid Ayre, it was the dividend restraint required by the post-war government which was to blame. 'These large cash resources, which we were restrained from distributing to shareholders, it seemed obvious could not fail to make us vulnerable to a "take-over" bid by some finance house'.[130]

The net result of all these changes on the structure of ownership of companies in Fife is evident from figures 3.8 and 3.9. Amongst companies using property valued at £250 or more, the proportion in which the majority of the shares were held by one family dropped from 50% in 1950 to 29% in 1960. The percentage in which Fife residents held a majority of the shares dropped from 46% to 29% in the same decade. Although the sources used do not permit the same detailed breakdown of ownership as in 1910 or in 1950, table 3.3 gives some information on the ownership of the largest manufacturing companies in the Kirkcaldy area in 1960. Companies have been grouped by property valuations and classified according to whether they were family-owned, other independent firms or subsidiaries and by the

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[128] SCO03138/109, 117, 121, 123, 128, 130, 137, 140, 147.
[129] SCO08553/92.
[130] Ayre, p. 282.

address of the majority of shareholders. It will be noted immediately that relatively few firms were still family-owned and that these were concentrated among the smaller of the listed companies. Local ownership had also been diluted, although Scottish owned companies still formed a majority in every category. Here, in addition to the impact of firm closures, new entries and takeovers, the continued emigration of family shareholders contributed to the geographical dispersal of the shareholding. Even such a tightly controlled family firm as W. Lumsden & Co. Ltd. of Freuchie and Kirkcaldy was owned by three sisters resident in Edinburgh, London and Dorset in 1960.[131]

Table 3.3: Ownership of manufacturing enterprises in 1960

	Largest 10 cos.	2nd largest 10 cos.	3rd largest 10 cos.	4th largest 10 cos
Family	2	2	6	4
Other Independent	3	4	2	2
Subsidiary	5	4	1	0
Unknown	0	0	1	4
Fife	3	3	5	2
Rest of Scotland	4	3	2	2
Rest of Britain	3	2	1	2
North America	0	2	1	0
Unknown	0	0	1	4

Note: companies are grouped according to the valuation of the total manufacturing property occupied and classified according to where the majority of shares were held.
Source: see table 2.4.

Over the following decade, the shift in the ownership of the Fife economy away from family and local ownership was to intensify. The 1960 survey picks up only the very beginning of the development of Glenrothes as a centre for an American-dominated electronics industry.[132] The most significant turning point for the burgh of Kirkcaldy came perhaps in 1963 with both the merger of Michael Nairn & Co. Ltd. with James Williamson &

[131] RoC: SCO21676/37.
[132] Pocock, pp. 129-130

Son Ltd. of Lancaster and the decision by Barry & Staines Ltd., the holding company of Barry, Ostlere and Shepherd Ltd. to cease production in Kirkcaldy. As local newspaper reports reveal, the closure of Barrys plants, in particular, was seen as the end of an era.[133]

3.4.2 The Consequences of Restructuring for the Local Economy

The post-war shift away from local ownership of industry appears to have been fairly typical for Scotland as a whole, although Fife's prosperity in the 1950s may have delayed restructuring in comparison to other regions. Doherty, writing on Dundee, describes the period between 1945 and 1970 as one of 'economic restructuring' in which the old jute firms declined and engineering became the dominant sector of the local economy. As in Fife, this shift was due to the arrival of outside multinationals, many of them North American, such as NCR and Timex.[134] Foster and Woolfson identify two major bursts of outside investment in industry in West Central Scotland in 1945-9 and 1960-4. By 1968, less than half of plants in Central Clydeside employing more than 250 employees were Scottish-owned.[135] Foster and Woolfson go on to quote Firn, who argues that external control was particularly strong amongst the largest plants and in the most dynamic sectors, whilst Scottish ownership was concentrated among smaller businesses and the more traditional and slow-growing industries.[136] Scott and Hughes identify the post-war years as a key period when 'control over many of the dynamic features of the economy were progressively removed from Scotland to London, and also to the USA'.[137]

The consequences of the changing patterns in ownership and control has been the subject of debate. The process is obviously closely related to the shift in the structure of the Scottish economy away from coal-mining and heavy engineering and towards electronics and service industries. Both

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[133] Fife Free Press 6.4.1963.
[134] J. Doherty 'Dundee: A Post Industrial City' in C.A. Whatley (ed) The Remaking of Juteopolis. Dundee ca. 1891-1991 (Dundee, 1992), pp. 26, 29-30.
[135] Foster and Woolfson, pp 36-38.
[136] J.R. Firn External Control and Regional Development: The Case of Scotland' Environment and Planning A, 1975, 7, pp. 403-7.
[137] Scott and Hughes, p. 154.

Buxton, and Lythe and Majmudar argue that as a result of this shift, after a period of very low growth around 1960, the Scottish economy grew faster than the British one in the 1960s and 1970s. The gap in gross domestic product per head between Scotland and Britain narrowed as the Scottish production structure came to resemble more closely the British norm.[138] Hood and Young point to some of the advantages which foreign and especially US multi-nationals brought to the Scottish economy. Quite apart from the often significant employment they created, they represented a major investment of capital, productivity was generally higher than in British-owned firms, and, since they congregated in new industries, they brought with them new technology.[139]

At the same time, a number of trends with worrying implications for the development of the Scottish economy have also been identified. Hood and Young argue that US-owned plants are unlikely to locate key functions such as research and development and marketing in their Scottish plants.[140] Firn sees external control as leading to a shift in the location of decision-making and a deterioration in the quality of the jobs created: 'the nature of new jobs provided by external plants has been principally orientated towards female semi-skilled operations in, for example, electronics plants, whereas the jobs lost have been mainly of male, highly paid, skilled craftsmen. Therefore there seems to been a net wage reduction per new job provided, as well as an element of deskilling'.[141] Massey sees a hierarchy of regions in which the lowest rank is occupied by declining industrial regions or previously unindustrialised areas, where the cheap labour is the chief attraction for outside capital. The economies of such areas remain inherently unstable since production can easily be shifted to other, still cheaper, areas.[142]

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[138] N. Buxton 'The Scottish Economy, 1945-79: Performance, Structure and Problems' in R. Savile (ed.) The Economic Development of Modern Scotland, 1950-1980 (Edinburgh, 1985); C. Lythe and M. Majmudar The Renaissance of the Scottish Economy? (London, 1982), esp. pp. 115-8.

[139] N. Hood and S. Young Multinationals in Retreat. The Scottish Experience (Edinburgh, 1982), esp. pp. 15-29.

[140] N. Hood and S. Young 'U.S. Investment in Scotland - Aspects of the Branch Factory Syndrome' Scottish Journal of Political Economy, 23, 1976.

[141] Firn, p. 411.

[142] Massey, pp. 237-8; see also D. Massey Spatial Divisions of Labour: Social Structures and the Geography of Production (London, 1984), pp. 99-109.

Some of the gains listed can clearly be identified in Fife. According to McNeil, manufacturing employment in the county increased by 13,000 between 1963 and 1970.[143] This expansion was also related to the diversification of the economy, as Glenrothes in particular developed into a major centre of machine and electrical engineering. By 1970, 18 of the largest 50 companies in the Kirkcaldy area were engaged in the production of machinery, including electrical engineering and precision tools.

It should also be noted that as well as the large incomers which attracted the limelight, the period also saw a dramatic increase in the number of smaller manufacturing companies.[144] This revival in the company 'birth' rate, or at least the rate of entry into the Kirkcaldy area, helped to reverse the marked trends of the previous forty years towards the concentration of manufacturing property in the hands of the largest companies. As can be seen in figure 3.10, the proportion of property held by the largest 10% of companies dropped from 71% in 1950 to 65% in 1970, and a large part of this was accounted for by a rise in the smallest 70% of companies from 9% in 1950 to 12% in 1970. This decrease in the proportion of manufacturing property controlled by the largest companies should not, of course, be confused with a decline in average company size. Many of the new factories were simply part of much larger concerns with plants spread around the country or in a few cases world-wide. The polarization between a minority of large concerns and the mass of smaller ones, already evident in the inter-war years, was not reduced, but simply transferred to a national scale. Gulvin suggests that in the knitwear industry the optimum size of companies was increasingly very large or very small and that the medium-sized businesses operating from one production site were at a disadvantage with neither the low production costs of their larger competitors nor the flexibility of small businesses.[145] In the Kirkcaldy area too, the medium-sized companies which had so long been a key

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[143] McNeil, p. 185.

[144] This increase may appear somewhat surprising when the Bolton Committee concluded that the number of small firms was still contracting in this period. Bannock, however, suggests that trends in the number of small firms were changing even as the Bolton report was being written and that the decline in numbers was bottoming out. Regional differences are also, of course, important. Report of the Committee of Inquiry on Small Firms (Bolton Committee) 1971-2, Cmd. 4811,pp. 56-60; G. Bannock The Smaller Business in Britain and Germany (London, 1976), pp. 17-8.

[145] Gulvin, p. 138.

component of the economy were less important than at any previous stage in its history.

In an attempt to explore some of the longer-term implications of the restructuring of the 1960s, a comparison was made between the business structure of the Kirkcaldy area in 1970/1 based on the valuation rolls and that of 1991/2 for which the Fife Business Directory of that year was used. Although differences between the two sources means that conclusions need to be treated with caution, two comparisons can be made. Firstly, the valuations given in the 1970/1 valuation roll were compared to the employment figures given in the 1991/2 Directory to give some impression of company growth rates. In 1970, 48 companies were listed as holding property valued at over £3,000. Of these, 19 also appeared in the 1992 Directory, 10 as employing over 300 employees and a further 3 with between 100 and 300 employees. Of the 89 companies in 1970 which held property totalling between £300 and £3,000, only 27 were listed in the 1992 Directory and of these only 6 had more than 50 employees. If the higher survival rate of the larger companies is not perhaps surprising, what surely is significant is how few of the smaller companies succeeded in joining the ranks of the leaders. Interestingly, the six which did pass the 50 employees benchmark include one American branch factory and three family firms which could trace their roots back to the nineteenth century.

A further comparison was made to explore the survival rates for a number of different types of company. The 71 enterprises listed in 1970 as using property valued at £1,500 or over were divided between firms which were independent and locally-based and remained so, companies which were subsidiaries or became such, and branch factories of either British or US firms, and their survival was then checked in the 1992 Directory. The results are given in table 3.4 and reveal both the far better survival rates of US than of British owned branch factories, but also the significantly higher survival rate for the minority of locally-owned and independent companies.

Table 3.4: Development of enterprises between 1970 and 1992 with property valued at £1500 or over in 1970

Category	Total in category	Survive	Disappear
Independent and remain so	25	14	11
Subsidiaries or become so	13	4	9
Branch factories (UK-owned)	19	5	14
Branch factories (US-owned)	6	4	2
Unidentifiable	8	1	7

Source: VR 101/151, 153, 154; Fife Business Directory 1991/2.

Although the period of interest for this thesis ends around 1960 and these final statistics have given only the barest indication as to subsequent developments, they suggest that some caution is required in treating the surge of new entries in the 1950s and 1960s as restoring the vigour of the manufacturing economy in Fife. On the one hand, many of the new entries during these decades were to prove far less committed to the area than the remaining Fife-owned large companies. On the other, Fife appears to have developed a dual economy in which the mass of small and presumably locally-owned enterprises failed to outgrow the world of small business. Neither incoming capital nor the growth of a locally-based small business sector provided an equivalent replacement for the loss of large and medium-sized manufacturing firms. A survey of manufacturing in Fife today highlights the importance of firm survival: old-established and locally-owned firms such as Tullis Russell & Co. Ltd., James Donaldson & Sons Ltd. and ESA McIntosh Ltd. remain among the region's largest and most stable employers.

3.5 Conclusion: The Significance of Survival

This chapter has looked at a number of different aspects of the business structure of the Kirkcaldy area over time. Using a three period chronology, it has explored such themes as the concentration of ownership within firms,

both in a geographical sense and in terms of kinship ties, the distribution of manufacturing property between firms and of firms between industries. Change over such a timespan is inevitably complex, but what has often emerged as the key variable has been the changing rate of turnover in the stock of businesses. Many of the other changes explored resulted from changes in this rate. For instance, the continued significance of family-owned and locally-based firms in the economy of the Kirkcaldy area until well after 1945 was clearly related to the stagnation in the stock of companies, whilst the rapid decline in the 1950s and 1960s in the number of such firms was associated with the restructuring of that period. Similarly, the range of industries represented in Fife expanded in the early twentieth century and particularly in the late 1950s and the 1960s, when turnover in the stock of companies was high, whilst the inter-war years saw comparatively little industrial diversification. Even changes in the level of concentration in the ownership of productive capacity appear to be related to the turnover in the stock of companies, with an increase in concentration in the inter-war years when few new enterprises entered the area and a decline in the 1950s and 1960s, when the entry rate rose.

The rate of turnover was the result of changes in both the rate of entry into business in the Kirkcaldy area and of the rate of exit from business. Both were relatively high in the first decades of the century, fell in the inter-war years and remained low until the 1950s, before rising dramatically around 1960. The rough stability in the total number of enterprises until the 1960s, which is illustrated by figure 3.1, indicates that entries and exits moved in tandem until that decade and it is tempting to see them as linked. Yet it is also important to be aware of the differences between the two rates. The entry rate was beginning to drop by the turn of the century in the burgh of Kirkcaldy at least, whilst the exit rate only fell after 1920. At the other end of the period under examination, the rise in the exit rate around 1960 did not match the huge advance in the number of entries in the 1960s. Of significance too are differences in the composition of the two rates. As has been noted, whilst exiting firms continued to be principally locally-owned companies, after 1950 the larger new entries were increasingly based outwith Fife and were not new launches.

At a national level fluctuations in the rate of entry into business have attracted more attention than changes in the rate of exit. Where exit rates have been examined, it has been their relationship to entry rates which has been at the centre of interest. One line of study has been the one followed by Foreman-Peck and Hudson who have explored the significance of the rise in the number of company registrations in England and Wales in the inter-war years, and have used 'death' rates as a measure of firm success.[146] An alternative link is that made, for instance, by Boswell who sees firm survival as monopolizing assets and therefore acting as a barrier to entry to new and potentially more dynamic enterprises.[147]

This emphasis on new company formation has reflected contemporary economic and political analyses. As concern has grown over Britain's relatively poor growth rate, comparisons have been made with the dynamism of the economy in the Victorian era, and the roots of rejuvenation have been at the centre of attention. In the 1980s in particular, considerable emphasis was placed on the role of small businesses and the individual businessman, and entrepreneurial initiative and a willingness to take risks were seen as a major source of vitality. One consequence of this interest in the entry rate into business has been the generation of a considerable body of literature on new and small businesses.[148] In Scotland, the issue has led in a slightly different direction. The stubbornly low company 'birth' rate in Scotland in recent years has been seen as a major weakness in the Scottish economy and a sufficient cause for concern for Scottish Enterprise to investigate it with a major research programme.[149]

Yet the issue has proved easier to pinpoint than to explain, and the Scottish Enterprise research resorted to a number of cultural explanations such as attitudes towards entrepreneurs and the quality of life.[150] The problems result in part from the logical problems involved in proving a negative:

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[146] Foreman-Peck, pp. 409-10; Hudson.
[147] J. Boswell The Rise and Decline of Small Firms (London, 1973), Ch. 11.
[148] See for instance, D.J. Storey Entrepreneurship and the New Firm (London, 1982); M. Scott and A. Gibb (eds) Small Firms Growth and Development (Aldershot, 1986); P. Ganguly UK Small Business Statistics and International Comparison (London, 1985).
[149] See J. Buxton 'Culture and Comfort Remove Scottish Appetite for New Business' Financial Times 17.1.93; C. Beveridge 'Infertile Land' Scotland into Europe, The Scotsman, December 1993.
[150] See J. Buxton.

examining the entry rate into business in Scotland in the twentieth century is largely a question of explaining why something allegedly did not happen. Furthermore, what is required is a very wide-ranging explanation. As we have seen, the evidence from the burgh of Kirkcaldy suggests that the entry rate into business was dropping as early as 1900 in some places. Even if rates have not remained constant since then, the problem in one form or another is therefore almost a century old and circumstances have varied enormously within the period - it seems unlikely that one set of reasons will remain valid over such a period of time.

An alternative line of approach is adopted in this thesis, and the emphasis is on the exit rate and in particular on the reasons for the high number of firm survivals until the 1950s but not thereafter. The examination of patterns of business development in the Kirkcaldy area in this chapter has shown that established companies, most of them locally-based, dominated the business landscape until around 1960 both in terms of size and of numbers. They also provided the mainstay of local economic prosperity. Storey points out that the loss of one established firm can cancel out the employment gains of a large number of new launches.[151] Throughout the inter-war years, it was the survival of established firms which protected the Kirkcaldy area from the worst ravages of unemployment, whilst the full employment of the post-war decades was achieved without major new entries into the local economy. Even today, the locally-owned independent companies provide an important element of economic stability to the region.

Understanding the causes of firm survival is therefore crucial in understanding the pattern of business development in the twentieth century. It may also provide some evidence towards understanding fluctuations in the entry rate. As has been shown, most of the firms which dominated the local economy into the 1950s were in majority owned by residents of Fife and the Lothians, and it is on these companies that attention is concentrated. It has also been noted in this chapter that the new company formations of the pre-1920 period were largely locally led and funded and that in the inter-war years, intervention by capital from outwith Fife and Edinburgh was relatively insignificant. Essentially, in the

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[151] Storey, p. 209.

period until the 1950s, new firm formation was largely dependent on the activities of entrepreneurs based in the same areas as existing firms. Studying the environment in which local businessmen operated may be of value in understanding their willingness to launch new manufacturing ventures.

Understanding business survival, then, is necessary both because of the undoubted significance of company survival in the structure of industry in the Kirkcaldy area, and because it provides a means of access into the other key factor in explaining the pattern of business development in Fife in the twentieth century, the low entry rate. The following chapters will look at the issue of business survival in terms of the internal structures of companies and of the strategies adopted by companies and businessmen to survive over time.

CHAPTER 4. FAMILY CAPITALISM AND BUSINESS SURVIVAL

4.1 Introduction: Business 'Culture' and Business Behaviour

The previous chapter concluded by emphasizing the significance of firm survival in shaping the structure of business in the Kirkcaldy area in the first half of the twentieth century. Increased firm longevity and the low rate of entry meant that until the 1950s the local economy was dominated by a group of established manufacturing and mining companies, most of which were based in Fife and Edinburgh. This and the following two chapters will seek to explain how these firms survived and why they eventually declined. The following chapters will concentrate in turn on the issues of production and finance and will investigate how the policies followed contributed to the pattern of survival and decline. This chapter will look at the two related issues of limited liability and the internal structures of firms. It will argue, firstly, that incorporation enabled firms to overcome some of the problems which had curtailed firm longevity in the nineteenth century, and, secondly, that power in the new ownership and management structures which evolved under limited liability was retained by firm leaders. The increased resilience imparted by limited liability and the power firm leaders exercised were the essential pre-conditions which enabled business leaders to pursue the production and financial policies discussed in the next chapters. The subject of this chapter is therefore seen as crucial in explaining the development of the business structure of the Kirkcaldy area.

In this discussion, the links between family and business play a central role. As was explained in the Introduction, attention has recently been refocussed on the extent of family control in British industry and the impact this had on Britain's economic development. The close relationship between family and business is seen here as a key factor in explaining problems of instability before the widespread adoption of limited liability and in shaping the internal structures of family firms. However, it will be argued that family control in itself cannot be seen as the cause of business survival and decline, since statistics for the minority of locally-owned firms in the Kirkcaldy area which were not controlled by one family reveal much

the same pattern of development, and many of the features identified as detrimental in family firms were shared by these non-family firms.[1]

The chapter is divided into four sections. The first will look at the relationship between family and business before the adoption of limited liability and will show that this relationship was one cause of business instability in the nineteenth and early twentieth century. The second will look at the impact of limited liability and will argue that it provided a legal framework in which firm longevity rose, by permitting the separation of ownership and control. The third section will look at family firms and will show how the separation of ownership and control did not reduce the power exercised by family leaders and that there were many similarities in the way these firms were run. The fourth section will look at those locally-based firms which were not dominated by a single family and show that, if at times for different reasons, they shared many elements of this management style. Finally, the conclusion will return to the issue of firm survival and argue that although family control in itself cannot explain the pattern of business development, the tight control exercised by those who ran both family-owned and other firms is a key factor in understanding the development of these companies.

Before proceeding to the body of the chapter, however, some discussion about the approach adopted and the evidence used is necessary. This and the following chapters are about the decisions made by businessmen. The chapters argue that firm survival, like firm growth, is influenced by these decisions and cannot simply be explained in terms of changes in market conditions. Market conditions are, of course, a significant factor. Just as expanding markets present opportunities for growth, so too does market stagnation or decline represent a threat to the survival of the firm. Yet a

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[1] In the previous chapter, statistics on family control were based at times on majority control (see, for instance, figure 3.7). This is obviously a rather crude measure of the extent of family influence. Depending on the breakdown of shareholding, firms can be effectively controlled by a smaller block of shares and there were a few companies in the Kirkcaldy area in which a single family held around or just under 50% of the shares (see, for instance, the Methil Brick Co. Ltd. in tables 3.1 and 3.2). However, a glance at the two tables shows that most firms were in fact either overwhelmingly owned by one family, or no single family block of shares was large enough to wield effective control. In this chapter, where family and other firms are discussed separately (sections 4.4 and 4.5 in particular), firms in which 50% or over of the shares were owned by related individuals are described as family firms, whilst firms in which no group of related individuals held more than 33% of the shares are treated as non-family firms.

satisfactory explanation of firm development also needs to explore similarities and differences between responses to these changing conditions; it needs to consider why certain options were chosen; it needs to look at the role of businessmen as decision-makers and as entrepreneurs.

To the extent that economic theory is interested in entrepreneurial activity,[2] it is as a means of explaining the response to market conditions. Some theorists have interpreted the role of entrepreneurs broadly to include the whole process of allocating and exploiting resources. Marshall makes organisation his fourth agent of production beside land, labour and capital and writes that:

> the task of so directing production that a given effort may be most effective in supplying human wants has to be broken up and given into the hands of a specialized body of employers, or to use the more general term, of business men. They "adventure" or "undertake" its risks; they bring together the capital and labour required for the work; they arrange or "engineer" its general plan, and superintend its minor details.[3]

Most writers, however, have attempted to separate the managerial and entrepreneurial functions of the businessman. For Schumpeter, it is 'the carrying out of new combinations of means of production that constitutes the entrepreneur'; for Penrose, enterprise is a willingness 'to take a chance in the hope of gain, and, in particular, to commit effort and resource to speculative activity'.[4] Kirzner seeks a precise definition of entrepreneurial activity based around an ability to exploit temporary advantages in information in a dynamic market: 'the entrepreneurial element in the economic behavior of market participants consists in their alertness to previously unnoticed changes in circumstances which may make it possible to get far more in exchange for whatever they have to offer than was

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[2] For a discussion of the neglect of entrepreneurs in orthodox economics, see M. Casson The Entrepreneur. An Economic Theory (Oxford, 1982), esp. pp. 9-21.

[3] A. Marshall Principle of Economics (7th edition, London, 1916) esp. pp.138-43, 293.

[4] J.A. Schumpeter The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest and the Business Cycle (Cambridge/Mass., 1934) pp. 74-6, quoted in M. Casson (ed.) Entrepreneurship (Aldershot, 1990) pp. 114-6; E.T. Penrose The Theory of the Growth of the Firm (Oxford, 1959) pp. 33-5.

hitherto possible'.[5] All emphasize that it is in acting as an entrepreneur that the businessman can decisively affect the future of his enterprise.

If the strength of such theories is their ability to explain the variety of responses to market conditions, their emphasis is on individual action and they can easily reduce the success or failure of businessmen and firms to individual strengths or failings. Penrose indeed writes that entrepreneurship is 'a slippery concept . . . because it is so closely associated with the temperament or personal qualities of individuals'.[6] Business historians have often placed considerable stress on the characters and values of leading players.[7] Clearly such analyses are less useful when exploring broader trends such as the pattern of survival and decline identified in the previous chapter. Here, what is of interest is less the achievements of individual businessmen than the differences and, above all, the similarities between the courses of action chosen.

One recent solution to this problem has been to look at the intellectual or cultural environment in which businessmen operate. For Casson the appeal of this approach is that it relaxes some of the 'very restrictive assumptions about human motivation and decision-making' in economic theory, such as 'objectivity of information, autonomy of preferences, and costless optimisation' whilst retaining 'predictive power'.[8] By considering the underlying values and norms behind business behaviour, the aim is to find a level of analysis which can be used for comparative purposes since it neither reduces human behaviour to automatic responses to impersonal economic forces nor sees it simply in terms of individual characters. He stresses the 'crucial link between entrepreneurship and business culture' where culture is defined as 'a collective subjectivity - a shared set of values, norms and beliefs'.[9] Casson quotes the work of Hudson on the West Riding woollen industry to demonstrate the value of cultural concepts and in

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[5] I.M. Kirzner Competition and Entrepreneurship (Chicago, 1973), pp. 15-6.
[6] Penrose, p. 33.
[7] See, for instance, P. Payne Colville's and the Scottish Steel Industry (Oxford, 1979), esp. pp. 131-6, 238-53; J.S. Boswell Business Policies in the Making. Three Steel Companies Compared (London, 1983), esp. pp. 13-8.
[8] M. Casson 'Entrepreneurship and Business Culture' in J. Brown and M.B. Rose (eds.) Entrepreneurship, Networks and Modern Business (Manchester, 1993) p. 30.
[9] Ibid., p. 40.

particular trust in explaining business behaviour in the past,[10] and Jones and Rose also argue that 'it is at the level of the region and, more especially at that of the business community, that the cultural influences on nineteenth-century British family firm strategy can best be appreciated. Business communities derived their distinctiveness both from the economic base and from the complex array of traditions, skills and values which together make up that culture'.[11] The use of the concept of 'bounded rationality' which sees individuals as attempting to operate rationally within the bounds of a superfluity of imperfect knowledge, can also be used to analyse the shared constraints under which businessmen operate.[12]

Although these theories can provide valuable insights into how businessmen operate, they present specific problems to the historian. Where sociologists interested in business decision-making are able to question participants and have relied extensively on interviews to explore the goals pursued by businessmen,[13] such an avenue is only open to the historian to a very limited extent. Nor can much hope be placed in finding many statements left by businessmen in which they present their underlying goals. As Casson writes, 'because culture deals with values and beliefs to which everyone in a group conforms, individual members are often not aware of its influence'.[14] The evidence which has survived - and which has been used by business historians - is on what businessmen did and not on why they did it.

This distinction is of particular relevance to this thesis. As explained in the Introduction, the goal was to study the whole range of industrial companies active in the Kirkcaldy area, and not simply those which had left extensive documentation. To do this, two types of source were used, and each had its limitations. Firstly, much of the material in this chapter comes from the Register of Company files. Whilst this source provides comparative

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[10] Ibid., p. 42.
[11] G. Jones and M.B. Rose 'Family Capitalism' in G. Jones and M.B. Rose Family Capitalism (London, 1993) p. 8.
[12] See for instance, D. Hutchison and S. Nicholas 'Modelling the Growth Strategies of British Firms' in R.P.T. Davenport-Hines and G. Jones Enterprise, Management and Innovation in British Business, 1914-80 (London, 1988), esp. p. 53.
[13] See, for instance, J. Fidler The British Business Elite. Its Attitudes to Class, Status and Power (London, 1981).
[14] Casson 'Entrepreneurship and Business Culture', p. 40.

material on most limited companies (if not on the significant minority which remained unincorporated), and therefore makes it possible to compile quantitative data on some issues, the evidence it contained on how decisions were made was restricted. Secondly, where possible use was made of the papers of individual companies and attempts were made to locate data on a range of firms.[15] Although in the case of every company studied, except the Burntisland Shipbuilding Co. Ltd., large gaps existed in these papers, they nevertheless provided a wide variety of information - if less on questions of management than on some other issues. However, inevitably, the information was obviously limited to those companies where papers have survived and were located.

The chapter, therefore, relies on a mixture of quantitative data and individual examples. Both types of evidence, however, are primarily records of action taken and not the reasons for taking it. In this examination of business in the Kirkcaldy area, little direct evidence was found on the values of businessmen or the goals they pursued, and the word 'culture' with its implication of shared values and beliefs would be inappropriate. The evidence was on behaviour, and any conclusions on goals have to be reached through this evidence. Once this constraint is accepted, however, the material does possess potential. As will be seen, considerable evidence on business behaviour exists, common features are apparent, and some conclusions on the goals pursued by businessmen are possible. This chapter will demonstrate this in its discussion of the impact of limited liability and the internal structures of family and other locally-owned firms.

4.2 Business and Family Before Limited Liability

The world of nineteenth-century business is in some senses a familiar one. Accounts of a business environment dominated by small and medium-sized enterprises, usually unincorporated, and linked by market relationships,

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[15] Use was made of company papers held in public archives in Edinburgh, Dundee and Kirkcaldy. In addition, in order to broaden the range of enterprises examined, a number of companies were approached directly to see what records were held and if access would be possible. In every case, where papers had survived, access was granted and, as indicated in the acknowledgments, I am extremely grateful for this assistance. In total, the papers of ten companies were used. For details, see the Bibliography.

figure not only in standard descriptions of the Victorian economy,[16] but have also become a powerful model of how a free market economy with minimum intervention would operate.[17] However, surprisingly little has been written about the dynamics of business formation, re-formation and dissolution in this environment. This is partly a problem of material. One consequence of the relative lack of regulation in nineteenth-century Britain is that there was no requirement on business to register information systematically. Our knowledge of business depends on the chance survival of the papers of individual companies or businessmen, and the historiography of nineteenth-century business is dominated by histories of individual companies. As has often been pointed out, this has created a bias in the literature towards the successful and long-lived, since these are the companies whose records have survived.[18]

One point of departure in the study of business dynamics has been the relation between business and family. Davidoff and Hall have stressed the importance of kinship networks in early nineteenth-century business:

> Nowhere were the ties of kinship, friendship and business more evident than in the way partnership functioned. By far the most common form of partnership was father and son(s), brothers, uncle and nephew. Sisters married their brothers' partners and sisters' husbands often became partners after marriage thus binding two families into the fortunes of the enterprise. . . . Since one of the main problems of the partnership form was continuity of personnel, these personal ties helped to counteract the potentially disruptive winding up of the business or search for new partners at the death or withdrawal of the old.[19]

Morris has shown how the changing requirements of the family during the lifetime of an entrepreneur influenced the pattern of investment in business in both financial and personal terms.[20] Nenadic points to the multiplicity of

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[16] see, for instance, F. Crouzet The Victorian Economy (London, 1982), pp. 81-4, 401-414.
[17] W.P. Kennedy points to the role Victorian Britain has played in economic theory. Industrial Structure, Capital Markets and the Origins of British Decline (Cambridge, 1987), p.3.
[18] R.P.T. Davenport-Hines and G. Jones 'Editorial Introduction' in Davenport-Hines and Jones, p. vi.; Hutchison and Nicholas, p. 47.
[19] L. Davidoff and C. Hall Family Fortunes. Men and Women of the English Middle Class 1780-1850 (London, 1987), pp. 217-8.
[20] R.J. Morris 'The Middle Class and the Property Cycle during the Industrial Revolution' in T.C. Smout (ed) The Search for Wealth and Stability (London, 1979).

ways in which family support was important to small businessmen in late nineteenth-century Edinburgh.[21]

Business historians have tended to stress the strength and versatility of the unincorporated partnership as a form of business organisation.[22] Partnerships could be and were formed and re-formed to bring capital or expertise into a company and to take account of the changing needs of partners. In this process, family links were crucial. Family ties could provide a reservoir of capital and of personnel which was not governed solely by market conditions. Writing on mid-nineteenth-century America, Griffen and Griffen show that although businessmen were prepared to take tough decisions concerning their families, 'the family proved most useful . . . because of trust between its members. Family members could betray that trust . . . but the assumption apparently was that they would not or, at least, that relationships outside the family would be even less trustworthy'.[23]

The other side of this close relationship between business and family was that it made business peculiarly vulnerable to family crises. The unexpected death of a proprietor, the absence of a successor, too large a number of dependents to support or of offspring to establish, all could represent risks or burdens which could overwhelm an enterprise. Furthermore, as Daunton shows, even when a business provided adequate profits to support the family and when suitable and able heirs were available, the transfer, as one generation retired and the next took over the active control of the business, was fraught with difficulty.[24] Morris talks of the property-cycle of the middle class family during the Industrial Revolution,[25] and it is useful to see the unincorporated individual or family-owned business as subject to a family cycle whose impact on the survival of the enterprise could be as profound as that of the trade cycle.

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[21] S. Nenadic 'The Small Family Firm in Victorian Britain', Business History, 35, 1993.
[22] See for example P. Payne British Entrepreneurship in the Nineteenth Century, (2nd edition, London, 1988), pp. 14-7.
[23] S. Griffen and C. Griffen 'Family and Business in a Small City: Poughkeepsie, New York 1850-1880' in T.K. Hareven (ed.) Family and Kin in Urban Communities 1700-1930 (New York, 1977), p. 156.
[24] M.J. Daunton 'Inheritance and Succession in the City of London in the Nineteenth Century' Business History, 30, 1988, pp. 269-86.
[25] Morris, p. 91.

Illustrations of the significance of family are not difficult to find in the nineteenth-century 'pre-history' of the firms which dominated Kirkcaldy in the first half of the twentieth century. In the majority of cases where details on the history of an enterprise could be traced, it had remained in the ownership of the same family since the company's foundation. By 1900, many firms were owned by the second or even the third generation of family partners. In companies such as the linen firms of James Normand & Sons, Robert Stocks and Co., or N. Lockhart & Sons, fathers had been succeeded by sons since the 1790s or 1800s. The company histories produced by such enterprises to mark a 100th or 150th anniversary intertwine the history of the family and the firm.[26] Nenadic describes such histories as 'a distinct genre' and points to their role in a 'process of post hoc myth-building' in which the association of family and firm was used to create an image of business integrity and safe respectability.[27]

Yet the impression of solidity which these histories create hides the fragility of family business in an age of unlimited liability. For every company where sons followed fathers in a steady progression through the generations, there were others where succession represented crisis. The death of the younger Robert Kay in 1854 at the age of 41 meant that the Markinch woollen firm of Robert Kay and Son had to be dissolved on the death of his father, also Robert Kay, in 1856.[28] The bleaching business of Alexander Balfour & Co. ended when Alexander Balfour died in 1914, aged 86, with no successor.[29] The Kirkcaldy linen firm of John Main & Sons was sold by the trustees of the late William Main, including Agnes and Robina Main, in 1912,[30] and in 1915 N. & N. Lockhart, flaxspinners, was sold as a going concern by George Thomson Clunie, C.A., 'judicial factor on the estate of the late Ninian Douglas Lockhart', the former sole partner.[31] Even the firm which came to dominate Kirkcaldy in the twentieth century, Michael Nairn & Co. Ltd., almost succumbed on the early death of its founder, Michael Nairn,

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[26] See, for example, N. Lockhart & Sons Ltd. 150 Years of Progress and Development (Edinburgh, no date), or The First Hundred Years 1840-1940, being the History of John Davidson & Son Ltd. (Kirkcaldy, no date).
[27] Nenadic, pp. 87-8.
[28] A.J. Campbell Fife Shopkeepers and Traders (1820-70) (Kirkcaldy, 1989), Vol. IV, p. 6.
[29] Ibid., Vol III, p. 11.
[30] Edinburgh Gazette, 1912, p. 1389.
[31] Edinburgh Gazette, 1915, p. 2431.

in 1858 at the age of 53. His eldest son was just 21, and, according to the company's historian, possessed 'neither the experience, the physique nor the gift of command' to lead the company. The situation confronting Michael's widow, Catherine, was 'sombre and insecure':

> Nobody would have blamed Mrs. Nairn if she had decided that the business could not be continued with success. She was faced with the prospect of having to sell the factory - and she knew that a forced sale would, in the circumstances, involve a considerable loss. The works were still the only floorcloth manufactory in Scotland, . . . it was unlikely that any local business man would take the risk of purchasing and carrying on a business that had complicated technical processes with which he was unfamiliar.[32]

In the circumstances, she decided to continue and take on the firm's commercial traveller, James Shepherd, as a partner. The future of the business was only assured with the accession to power of the second son, Michael Barker Nairn.

To overcome the problems of succession, businessmen and their families often needed to widen the search for partners beyond the immediate circle of direct male descendants. Even before the turn of the century, daughters were made partners in some family firms, although their terms of office were often short and it is open to question how active a role they played. Thus around 1900, both Isabella and Margeret M'Intosh were partners in the father's firm of A.H. M'Intosh & Co., cabinetmakers, although Isabella appears to have retired on marriage.[33] A more long-term solution was to admit sons-in-law as partners. Isabella M'Intosh's husband, George Fergusson, was a partner when the company was incorporated in 1905,[34] and from then on Fergussons were associated with M'Intoshs in the running of the company. In a similar way, the marriage of Catherine Nairn to William Black and of Annie Harley to Frank Hepburn brought new partners into Michael Nairn & Co. and the Fife Forge Co., respectively, and they and their descendants were to play prominent roles in the twentieth century.

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[32] A. Muir Nairns of Kirkcaldy (Cambridge, 1956), p. 47.
[33] Campbell, Vol. III, p. 169.
[34] RoC: SCO05853/9.

Where there were no daughters, the extended family could provide solutions. In 1874, the two senior partners in R. Tullis & Co., William Tullis and James T. Smith were 65 and 59 years old and both childless. William's nephew had been admitted as a partner the previous year, but Robert Tullis was only 32 and had other business commitments. The solution was to admit as partners two brothers of William Tullis's wife, Agnes, née Russell. In the words of the Minute of Co-Partnery: 'William Tullis and James T. Smith, the Senior Partners, considering their desire to take a less active part in the management, have arranged to assume as partners in the Papermaking and Bleaching business, David Russell, Silverburn, and Arthur Russell, Banker, Cupar, . . . '.[35] Charles Anderson, the first manager and by 1889 sole partner of Smith Anderson & Co., was also childless. Under the terms of his will, written in 1906, Charles Anderson left his paper mill to two second cousins - on condition that they establish a limited company and restrict to five per cent dividends on any preference shares.[36]

In still other cases, the search for successors went beyond the family. David Methven made his works manager, Andrew Ramsay Young, first partner and then, in 1861, successor at the Kirkcaldy Pottery, since 'none of his sons took an active interest in the "Art of Potting"'.[37] In the 1860s 'a young man named Andrew Wylie [who] had recently come into the works and had caught the attention of the proprietor' was made a partner in John Fergus & Co., flaxspinnners.[38] When John Fergus, a bachelor, died in 1865, Wylie became sole proprietor. Later, he, in turn, admitted as partner James Porter, who had started in the firm as a clerk, and on Wylie's death in 1891 Porter took over the sole running of the firm.[39] The company history of the Allen Lithographic Co. Ltd. describes how J.H. Allen came to acquire the company from Alexander Beveridge, its founder: 'Eventually financial worries and intense competition caused Beveridge's health to fail and during a long illness he called on John Henry Allen, one of his apprentices who had risen to the position of leading Lithographic Machineman, to carry

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[35] Quoted in C.D.M. Ketelbey Tullis Russell 1809-1959 (Markinch, 1967), p. 119.
[36] Trust disposition dated 22.3.1906, in the papers of Smith, Anderson & Co. Ltd. The company papers are held by the company.
[37] J.A. Fleming Scottish Pottery (Glasgow, 1923), p. 195.
[38] A. Hunter The Auld Toon o' Leslie (Kirkcaldy, 1957), p. 69.
[39] D. Beath Reminiscences of Leslie and Neighbourhood (Kirkcaldy, 1912), p. 97.

on as General Manager. On Beveridge's death the business was acquired by him'.[40] In these cases, the firm was preserved at the price of the family connection. If there were family members to compensate, however, such solutions could place a heavy burden on the business. Charles Anderson placed a bond on his mill of £40,000 to be paid off within seven years with the money to be distributed among various relatives and charities.[41] High profits enabled his successors to discharge the burden by 1915, but within this period no dividends were paid.[42] Nevertheless, despite the costs to family and firm, succession outside the family appears to have been surprisingly common. Although inheritance through the female line may have played a part, by 1910, in almost 20% of the firms with manufacturing property valued at over £250 in the Kirkcaldy area which were named after an individual or individuals, none of the partners bore the name of the firm.[43]

Partnerships between unrelated individuals, therefore, could be a response to the crises of continuity and succession thrown up by the unpredictable demography of families, as well as to business requirements such as the need to bring in extra capital or management expertise. Indeed, the two cannot always be separated. Capital was often found within the family and bringing in unrelated partners could represent a temporary expedient whilst sons were acquiring management skills. The need to take on outside partners was also strongest at certain stages in the life of an enterprise. One such time was at its launch when the requirements in terms of capital were high. Cottrell emphasizes the critical importance of the early years when major investments needed to be made and before a firm had built up reserves.[44] Many businesses in the Kirkcaldy area which later became family firms, including both Smith, Anderson & Co. and Tullis, Russell & Co., started life as partnerships of unrelated businessmen.[45] A range of business expertise could also be required at this stage. Thus J.H. Allen

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[40] Allen Lithographic Co., Our Progress in Print (Kirkcaldy, 1959), p. 3.
[41] Trust disposition dated 22.3.1906, in the papers of Smith, Anderson & Co. Ltd.
[42] Smith, Anderson & Co. Ltd., AGM Minute Book, 15.11.09, 21.11.1910, 6.11.1911, 18.11.1912, 3.11.1913, 16.11.1914, 13.12.1915.
[43] Statistics on enterprises in the Kirkcaldy area have been calculated by the author on the basis of the sources and methods described in Ch. 2.
[44] P.L. Cottrell Industrial Finance, 1830-1914. The Finance and Organization of English Manufacturing Industry (London,1980) p. 35.
[45] Ketelbey, pp. 29-36, 101-3.

'being essentially a Lithographer, without business training or experience' entered a partnership with a Glasgow businessman for nine years, before starting on his own.[46]

Once capital and skills were built up, the need for such partnerships diminished. Since co-partnery agreements often contained clauses giving the surviving partners the option to acquire their colleagues' shares on death or retirement,[47] there was a tendency for partnerships to revert to single or family ownership unless a commitment existed to maintain the link. Over time, however, a second factor came into play. As founders grew older and wished to retire, concerns about the survival of the firm became a major reason for entering co-partnery agreements. Junior partners, often significantly younger than their colleagues and holding markedly fewer shares, might be brought in to take over some aspects of the management. Where, as was the case in a number of firms in the Kirkcaldy area, ownership upon incorporation was split unequally between senior and apparently unrelated junior partners, such a course of events seems the most likely explanation. The linen firm of Ireland and Wishart, for instance, was founded in 1863 by David Ireland and his son-in-law, James Wishart. David Ireland died in 1889, but in 1884, Charles Reekie, who had started work as an office boy and was then aged 27, had already been made a partner. When the firm was incorporated in 1900, Wishart received 60.8% of the shares in the new company, and a further 9.3% were held by members of his family, whilst Reekie and a new partner, Alexander Kilgour, each received 12% of the shares.[48]

An ideal model of the life-cycle of an unincorporated firm in the nineteenth century would therefore show it moving from its birth, when several partners might provide capital or skills, through a period of maturity, in which a smaller number of active partners ran the company, into a period of transition, in which new and younger members were admitted in an attempt to provide continuity. These periods would correspond to the youth, prime and old-age of the original active partners, and the long-term survival of the

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[46] Ibid., pp. 3-4.

[47] See for example the terms of the contract of co-partnery which established R. Tullis & Co. in Ketelbey, p. 35.

[48] Campbell, Vol. III, p. 144; RoC: SCO04449/6. The case of Robert Wemyss & Co. appears to be similar: see the agreement signed on incorporation in 1913. SRO: BT2/8826/9.

firm would depend upon their success during the period of transition in handing the firm over to a younger generation, whether related or not.

Many elements of this life-cycle - and the fundamental fragility of business survival under these conditions - are well illustrated by the history of the enterprise of Douglas and Grant. Robert Douglas, born 1822, first entered business in Cupar as an engineer in 1847 in partnership with John Jackson, a man of wide business interests.[49] This partnership was dissolved in 1851, when Douglas acquired the works.[50] In 1854 he moved the business to Kirkcaldy and in 1872 signed a new contract of co-partnery, this time with his son-in-law, Lewis Grant, aged 28, who was already working for the firm as works manager. Douglas put up £15,000 of the £17,500 capital in the firm, now to be called Douglas and Grant, but after several years Grant's share of the profits was to rise to 9/20ths.[51] After Douglas's death around 1891, Grant became sole owner. In 1894, however, two further engineers, David Bonar and David Landale, were admitted to the partnership. Lewis Grant, who invested £14,000 of the £20,000 capital, was to draw half the profits. He was entitled to retire after five years in which event the others were bound to take over his interest.[52]

Subsequent developments are outlined in a memorandum drawn up by Lewis Grant's son in 1923:

> I, Lewis Campbell Grant, Ollerton, Kirkcaldy, entered the service of the firm of Douglas and Grant in September, 1897. At that time the firm consisted of Lewis Grant (my father), David Bonar (deceased 1906) and David Landale.
> In 1907 my father, left with only the assistance of Mr Landale, was anxious to secure as a partner, his brother-in-law - Charles Edward Douglas. Mr Landale objected on certain grounds and a fight ensued lasting until 1908. Ultimately on 1st May, 1909, C.E. Douglas and myself were coopted as partners in the firm of Douglas and Grant.
> It was arranged that the interest of each of us in the capital of the firm should be £12,375. Of this amount Mr Douglas contributed £2000 in cash. My father advanced £10,375 in terms of agreement entered into between Mr Grant and Mr

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49 ULDA, 45/1/2, 45/9/14 Douglas and Grant papers; Ketelbey, pp. 100-1.
50 45/1/2.
51 45/1/4.
52 45/1/12.

> Douglas . . . In consequence of a series of bad years experienced by the firm, Mr Douglas has never paid any interest or reduced the indebtness.[53]

The debt was never repaid and after the elder Grant's death was transferred to his estate. Lewis Grant, senior, also possessed a bond over the heritable property of the company as security for an outstanding loan of £24,449 which pre-dated incorporation in 1912.[54] From his retiral in 1910 on, first he and later his trustees attempted to reclaim these debts. The company was badly affected by the slump of 1920 and was thereafter quite unable to repay the loan or a bank overdraft, despite various attempts to reorganise the management of the company. By the spring of 1926, the trustees were considering forcing the company into liquidation,[55] and in November it was dissolved.[56] Lewis Campbell Grant, caught as he pointed out to a fellow trustee 'in a triple capacity' as trustee, director and shareholder, saw himself as one of the losers.[57] In a sad note on the back of a memorandum presumably intended for a relative, he added:

> As regards Trust matters, . . . I suppose you know the position, that I am being asked to pay 5% on the money which I was allowed to draw under the terms of the will. It seems horribly unjust, and must, I suppose, mean that in the end I will be wiped out altogether as a beneficiary. I don't feel it so much personally, I'm beyond that now, but the injustice of it will fall on Irene and Jack. It doesn't bear talking of to Mother. I could almost laugh at it when I need the benefit of the Trust so badly, to be actually turned round and asked to pay. And the others think themselves badly off![58]

The case illustrates not only the continuing need to bring in new blood to strengthen the management of the company and to replace retiring or deceased partners, but also the impact which issues of inheritance and succession could have on the survival of an enterprise. In this case, the complex relationships between family and business not only destroyed the firm but also divided the family. Although the final acts of the tragedy were played out in an incorporated company, the root of the company's problems

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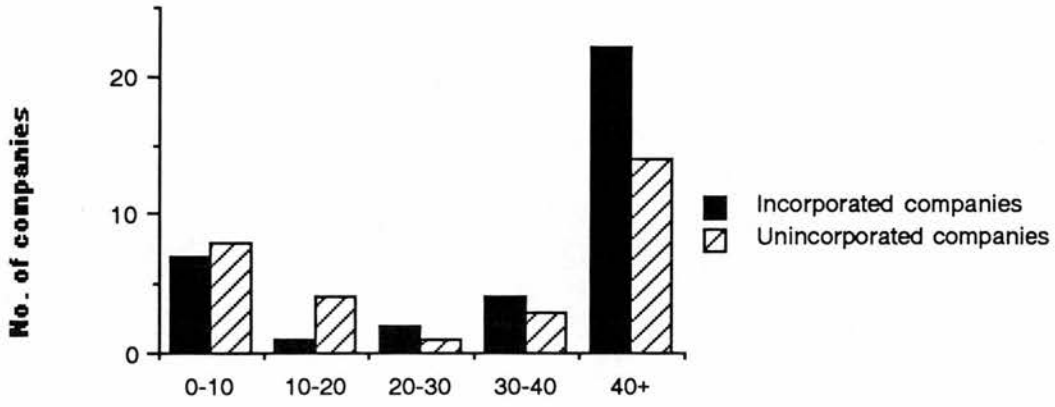
53 45/3/2 (25).
54 SRO: BT2/8394/7.
55 ULDA, 45/3/2 (2), Douglas and Grant papers.
56 SRO: BT2/8394/43
57 ULDA, 45/3/2 (48), Douglas and Grant papers.
58 45/3/2 (19).

lay in an era where ownership and control were considered indivisible. In an era of unlimited liability, business remained inherently vulnerable to such crises.

4.3 Business Survival and the Impact of Limited Liability

Limited liability offered a means of avoiding crises of inheritance and succession by making it possible to separate ownership and control, and the increasing ability of firms to survive over time in the early twentieth century is linked to its widespread adoption. It will be recalled from Chapter Three that after a peak in the number of manufacturing businesses ceasing to operate in the Kirkcaldy area in the immediate aftermath of World War One, the number of exits dropped and firm longevity rose (see figures 3.3 and 3.6). Figure 4.1 looks at comparative rates of survival for firms which were incorporated in 1920 and for those which were not. It will be seen that manufacturing firms which were incorporated enjoyed on average a longer subsequent lifespan: almost two-thirds of those incorporated in 1920 were still active 40 years later, whilst less than half the unincorporated ones were. By contrast, 40% of the unincorporated companies had ceased operations by 1940, whilst this was true of only 22% of the limited companies. The figure ignores changes in status after 1920 and many of the longer-lived enterprises of 1920 subsequently incorporated. Unlimited companies, on the other hand, were over-represented among those firms which closed over the next 20 years. Less than 40% of manufacturing firms using property valued at over £250 in the Kirkcaldy area in 1920 were unincorporated, yet unincorporated partnerships accounted for 60% of firm exits between 1920 and 1940.

Figure 4.1: Longevity of limited and unlimited companies



Note: Number of years from 1920 to closure for family firms using manufacturing or coal-mining property in 1920 valued at £100 or over (firms incorporated and unincorporated in 1920). Source: See Table 2.4.

Cottrell suggests that one reason for the trend towards the adoption of limited liability was fear of the risks which unlimited personal responsibility for debts represented in the rawer economic climate of the turn of the century and after.[59] What is striking is how often the decision to change status also appears to have been related to issues of inheritance and succession. On the one hand, family crises continued to precipitate firm closures among unincorporated companies. The Kirkcaldy linen firm of John Jeffrey & Co., under the sole ownership of Charles Maxton since at least 1900, was sold within three years of his death in 1920 by his trustees, including a Mrs and a Miss Maxton.[60] On the other hand, limited liability appears to have been adopted in several cases to solve looming problems of inheritance or succession. The firm of John Fergus & Co. was incorporated in 1925, three years before the death of the main shareholder, James Porter, who had been a partner since at least 1891, and who received 80% of the shares. After his death, his estate was split between his two sons, only one of whom was involved in the firm.[61] The linen firm of N. Lockhart & Sons was incorporated in 1929 when the two partners were

[59] Cottrell, p. 163.
[60] Edinburgh Gazette, 1923, p. 1063.
[61] SRO: BT2/13825/8, 11, 14.

68 and 64 respectively. Of their three sons, two had been killed in the First World War and the third died of war wounds in 1932. A brother of the two partners who had emigrated to Canada was recalled, and after his death, the company was run for a number of years by a long-serving member of staff until a younger generation could take over.[62] The Forth and Clyde Roperie Co. was incorporated in 1951 by Thomas Renton, a bachelor, who had been a partner since 1892 and sole partner since the 1930s. On his death the following year, his shares were put in trust, presumably for his surviving sisters, and his nephew took over the management of the company.[63] By 1950, only six of the 50 largest enterprises in the Kirkcaldy area were unincorporated and in all six of them at least one of the owners had been a partner for decades. In Andrew Blyth & Co., the Melville-Brodie Engineering Co., and Robert Kilgour & Co., as in the Forth & Clyde Roperie Co., a single partner had controlled the firm for at least twenty years.

The attraction of limited liability in moments of transition was that it made it possible for businessmen to break the link between ownership and control. Contemporaries and historians have agreed in seeing the unification of the two as the key feature of unincorporated partnerships.[64] Under limited liability, business owners no longer risked personal bankruptcy if mismanagement destroyed the company, and so the perceived need to retain a personal control was reduced. Shares could be held by owners who were unsuited or lacked the desire to take over management functions. Furthermore - and this was increasingly useful to family firms as they entered their third or fourth generation and the number of family members who could expect a share of the property grew - it also made it possible to disperse ownership, either within or outwith the family. In terms of management, incorporation made it easier to strengthen the central decision-making forum of the firm without each time renegotiating ownership. New members could be elected to the board as required and their services dispensed with when these were no longer needed. By establishing a legal framework which enabled business owners to separate ownership and control, limited liability offered a means of overcoming the

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[62] N. Lockhart & Sons Ltd. (no page numbers).
[63] W. Tyson Rope. A History of the Hard Fibre Cordage Industry in the United Kingdom (London, 1967), pp. 110-1; RoC: SCO28238/10.
[64] Payne British Entrepreneurship, p. 14. See Cottrell for contemporary views, pp. 49-51.

crises of inheritance and succession to which firms had previously been so vulnerable.

The separation of ownership and management is seen as one of the key processes in the development of twentieth-century capitalism. Since the 1960s, economists such as Galbraith and Marris and historians such as Chandler have explored the significance of a 'managerial revolution' in which power in the company passes from owner-capitalists to salaried managers, and the distinction between two sets of business leaders has been used in a number of analyses of the British business structure.[65] The suggestion is sometimes made that limited liability in itself ended the era of entrepreneurial capitalism. Joyce, for instance, argues that 'the coming of the limited company and the decay of private ownership transformed the industrial face of Lancashire' and that this marked the 'passing of the family company' and the 'personal paternalism' he so masterfully describes.[66] More often it is argued that individual or family controlled capitalism survived the shift to limited liability largely unchanged. Chandler, for instance, writing on America, argues that 'even when partnerships began to incorporate, their capital stock stayed in the hands of a few individuals or families'. It was growth which forced companies to change their internal structures:

> As family- and financier controlled enterprises grew in size and age they became managerial. . . . In time, the part-time owners and financiers on the board normally looked on the enterprise in the same way as did ordinary stockholders. It became a source of income and not a business to be managed. Of necessity, they left current operations and future plans to the career administrators. In many industries and sectors of the American economy, managerial capitalism soon replaced family or finance capitalism.[67]

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[65] J.K. Galbraith The New Industrial State (London, 1967), R. Marris The Economic Theory of Managerial Capitalism (London, 1964), A.D. Chandler The Visible Hand. The Managerial Revolution in American Business (London, 1977). For studies using this distinction, see, for instance D.F. Channon The Strategy and Structure of British Enterprise (London, 1973), J. Fidler The British Business Elite. Its Attitudes to Class, Status and Power (London, 1981), J. Scott The Upper Classes. Property and Privilege in Britain (London, 1982), esp. Ch. 6.

[66] P. Joyce Work, Society and Politics (London, 1980), pp. 339-40.

[67] Chandler, pp. 9-10.

Turning to business in the Kirkcaldy area, there is some evidence to suggest that at first incorporated companies were indeed organised along very similar lines to traditional partnerships. In a majority of the manufacturing enterprises in the Kirkcaldy area which converted to limited liability between 1890 and 1920, all or virtually all of the shares were at first held by the directors, and these were very often allocated in proportion to the capital the partners had formerly held. In Grosset & Co. Ltd., for instance, incorporated in 1910, the entire assets of the 'old company' were transferred to the new limited one in exchange for 2995 of the 3000 shares, and the agreement specified that these were to be allotted to the former partners, brothers Philip and William Grosset, in proportion to their three fifth/two fifths share in the partnership.[68] Several of the Register of Company files of the companies established before the First World War also contain articles or agreements setting out the rights and duties of the first directors in much the same way as in a co-partnery agreement. When Robert Wemyss & Co. Ltd. was established in 1913, an agreement was signed between the two former partners and the new company, setting out the positions to be held by Robert Patterson, James Reekie and a third man, Frank Harley, who was described as 'at present in the employment of the Firm', how many shares they would take up and the salaries each should draw, and binding them to serve the company for a minimum of five years.[69] After five years, Harley resigned as director and returned his shares.[70]

Yet Frank Harley's case was exceptional in that no other case was found where directors who had entered such agreements left office after the original term had elapsed. The Register of Companies files also contain no evidence that such agreements continued to be made. Essentially such agreements were unnecessary: contracts to hire managers no longer required the renegotiation of ownership and the ownership of a company could be altered without affecting management. Over time, businessmen came to exploit the opportunities offered by limited liability, and the ownership and management structures of firms changed.

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[68] SRO: BT2/7444/8
[69] BT2/8826/9.
[70] Ibid. /15, 16.

The variety of new forms of business structure which limited liability permitted is most obviously demonstrated by those companies in which no single interest dominated ownership. As will be recalled from Chapter Three, Fife and Edinburgh-based entrepreneurs launched a number of companies in the Kirkcaldy area between the 1890s and 1920 in which capital was raised by public subscription; in other companies, limited liability was used to enable a group of unrelated subscribers to invest in a new undertaking. Where shares were sold to the general public, the result could be a very wide distribution indeed: the Fife Coal Co. Ltd. had over 2000 shareholders in 1910, whilst the Burntisland Shipbuilding Co. Ltd. had about 500 in 1940.[71] Even some of the smaller public companies had large number of shareholders - the Kirkcaldy Spinning Co. Ltd. with an issued capital of £8690 had 49 shareholders in 1900.[72] Where an incorporated firm was a vehicle for a group of promoters, the number of shareholders was of course smaller, yet here too they rose over time. William Young & Co. Ltd. was launched by 10 subscribers in 1888, who took up virtually all of the shares; by 1910 there were 40 shareholders.[73] The number of shareholders in the National Steel Foundry (1914) Ltd. rose from 9 in 1915 to 32 in 1940.[74]

This trend towards the dispersal of shareholding and the inevitable dissolution of the bond between ownership and control can also be distinguished among family firms, which, it will be recalled, remained the most common form of business in the Kirkcaldy area into the 1950s. As figure 3.7 showed, of those enterprises with property valued at £250 or over, the proportion in which related individuals held more than 50% of the shares declined only from 65% in 1910 and 60% in 1920 to 50% in 1950. However, the proportion of all enterprises of this size in which at most two related and active partners or directors held over 40% of the shares fell from 60% in 1910 to 34% in 1950, and the number in which 90% of the shares were held by at most two such individuals fell from 32% to 8%. Of the 19 limited companies in which related individuals held a majority of shares in 1950, all but three had more shareholders than at the time of their

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71 SRO: BT2/2826/41; RoC: SCO10033/58.
72 SRO: BT2/3812/9.
73 BT2/1711/1, 39.
74 RoC: SCO09263/12, 60.

incorporation. This dispersal of ownership within family firms was paralleled by an increase in the number of directors who were not related to leading shareholders. In 1910, the largest ten private companies in the Kirkcaldy area in terms of property valuation had in total only ten non-family directors (23% of all directors), by 1950, the ten largest private companies had 22 such directors (44%).

At first glance, these statistics suggest that family control was being dispersed in a process similar to that described within the United Alkali Company by Hannah, where family names remained at the forefront, but in reality power drifted away.[75] If this had been the case, it could be argued that whilst limited liability had increased the chances of firm survival by freeing enterprises from the risks associated with the individual or family life-cycle, the price paid was family authority, as a 'managerial revolution' left families in possession but not in control. Analysis of the internal development of enterprises in the Kirkcaldy area, however, suggests that this was not the case. It will be argued here that the changes permitted by limited liability - the dispersal of ownership and the reinforcement of management by the appointment of outside directors - did not lead to the dissolution of control but instead reinforced family and entrepreneurial capitalism by giving it greater flexibility. The rest of this chapter will look at the development of locally-owned firms under limited liability. First, the evolution of family firms will be discussed. It will be shown that although ownership was dispersed and boards were extended to include non-family members, so that in some respects the nature of family firms changed, the control exercised by family leaders was retained. The final section will explore how those locally-based firms which were not dominated by a single family developed under limited liability and will argue, in particular, that they shared many features with family firms.

4.4 Ownership and Control in Family Firms

The importance attached by those who incorporated companies to retaining control in their firms is often revealed in the articles of association.

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[75] L. Hannah 'Visible and Invisible Hands in Great Britain' in A. Chandler and H. Daems (eds.) Managerial Hierarchies. Corporate Perspectives on the Rise of the Modern Industrial Enterprise (London, 1980), p. 52.

Although the Company Acts provided a standardized form of articles entitled Table A, this was rarely used before the 1920s. Of the companies incorporated before 1925, less than a quarter adopted them and even those that did, both before and after that date, included clauses peculiar to that company. The most common of these clauses were for the appointment of named individuals - usually existing senior partners - as permanent directors, managing directors or chairmen. The rights of shareholders were also at times closely circumscribed, even in firms where all the shareholders were family members. The articles of the Fife Forge Co. Ltd., established in 1913, laid down that 'the Balance Sheet and Report . . . shall not be circulated and no copy of or extract from the same shall be taken or made without the consent of the Board'.[76] James Meikle & Co. Ltd.,carpet manufacturers, incorporated in 1939, denied preference shareholders the right to attend meetings.[77] Nowhere were restrictions set out so clearly as in the articles of the Balgonie Colliery Co. Ltd.:

> No shareholder (other than a Director) or Meeting of Shareholders shall be entitled to require any information concerning any part of the Company's trading . . . or any matter connected with the internal working of the Company, or respecting any patent, trade secret or mystery of trade . . . and no shareholder (other than a Director) shall be entitled, otherwise than authorised by law, to enter into or upon any of the premises of the Company, or inspect any of the papers or documents of the Company, or in any way interfere with the management or conduct of the business of the Company.[78]

A further concern was the relationship between directors. When Robert Forrester & Co. Ltd., coalmasters, was established in 1901, the articles made Robert Forrester and his son Hugh lifetime directors but 'in all questions of difference of opinions between him [ie. Robert Forrester] and his co-Director and Manager, the latter shall defer to his opinion'.[79] And in 1941, the articles of the newly formed W. Lumsden & Son Ltd., linen manufacturers, were written with a clause stating that George James Lumsden would be permanent director, chairman and managing director as long as he lived and was willing to fill these posts and that 'so long as the

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[76] RoC: SCO08553/3.
[77] SCO21124/3.
[78] SCO09072/3.
[79] SRO: BT2/4912/4.

said George James Lumsden remains a Director, in all questions on which there may be a difference of opinion amongst the Directors the views and vote of the said George James Lumsden shall prevail'.[80]

When articles were amended after the original generation had passed on, such clauses were invariably removed. This may well have reflected a growing awareness of how limited was the threat to control. Family entrepreneurs came to use the advantages of limited liability without fearing any consequences. As already indicated, limited liability possessed two key advantages - it permitted the dispersal of ownership and the reinforcement of management - and these will now be discussed in turn.

4.4.1 The Dispersal of Ownership

Limited liability made it possible to disperse ownership without undermining control. As we have seen, the number of shareholders in family firms grew over time. To a certain extent, this was due to the transfer of shares to non-family shareholders. In the period before the First World War, a few family firms used limited liability to raise capital by selling shares to the general public. Three cases were found where prospectuses were used by family firms.[81] In these cases, control was maintained by retaining either a majority of the stock or by only selling preference shares with restricted voting rights. More often, shares were made available to shareholders who had some connection with the company. In a few cases, these were customers or agents. When John Haig & Co. Ltd. was incorporated in 1894, the 14,000 ordinary shares were retained by Hugh Veitch Haig, but the list of preference shareholders contained both family members and hotelkeepers and spirit merchants around Fife.[82] An article in the D.C.L. Gazette from 1932 points to the inducements offered by whisky houses in the pre-war years to retain the custom of retailers, and the offer of shares can perhaps be listed among these inducements.[83]

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[80] RoC: SCO21716/3.
[81] Examples are given in Chapter 3, section 3.2.3. The use of the capital markets made by family firms in the period before 1914 is discussed in Chapter 6, section 6.3.3.
[82] Distillers Archive, John Haig & Co. Ltd., Directors' Minute Book, 20.4.1894. See also John Balfour & Co. Ltd., cited in Chapter 3, section 3.2.3.
[83] D.C.L. Gazette, April 1932. Preserved in the Distillers Archives.

The most common type of non-family shareholders in family firms were, however, employees. The legislation on private companies restricted the number of shareholders to fifty, but made a specific exception of employees and, although few companies in Fife had shareholders in excess of that number, the purpose behind this clause was obviously widely shared. In most cases, only the most senior staff received shares and the number allotted mirrored their status. Thus when James Donaldson & Sons, sawmillers and timber merchants, was transformed into a limited company by its sole partner, George Donaldson, in 1919, William Reid, described in the list of subscribers as 'commercial manager', was appointed to the board and permitted to purchase 300 of the 7500 shares. Three other senior employees also acquired shares: James McPherson, works manager, bought 100, David Donaldson (apparently not a family member), traveller, 50, and Alexander Watt, company secretary and cashier, 20.[84] In a few cases, shareholding was spread more widely among the employees. By 1926, 6600 of the 74,387 issued shares in Douglas and Grant Ltd. were held by 9 individuals which a list in the company papers identifies as senior employees, including engineers and a works manager, as well as the company's representative in Saigon.[85] Only in one case, that of N. Lockhart & Sons Ltd., which was headed by a leading local Liberal, Sir R.C. Lockhart, was provision made in the articles for distributing shares more widely among the workforce, and there is no evidence that this proposal was ever acted upon.[86]

No company in the Kirkcaldy area made more extensive or systematic use of employee and client shareholding than Michael Nairn & Co. Ltd. Incorporated in 1893, it had 98 shareholders by 1920, the overwhelming majority of whom were not family, although family members owned over 95% of the shares. Most of the non-family members were residents of Kirkcaldy and many were clearly employed in the linoleum industry. Others were merchants and traders from throughout the United Kingdom and also abroad.[87] The philosophy behind this pattern is made clear in the directors' minute books which record regular requests to pass shares onto spouses

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[84] RoC: SCO10528/3, 8, 11.
[85] SRO: BT2/8394/41; ULDA, 45/3/2 (23), Douglas and Grant papers.
[86] RoC: SCO15658/3.
[87] SRO: BT2/8394/31.

and descendants. These were nearly always rejected: 'it was decided to decline to transfer Mr. Elder's shares on the ground that shares held by people not in the Employ of the Company itself were liable to be called up at any time, that they are not to be looked upon as a permanent investment by outsiders, but to be held only so long as the Directors consider these shareholders are in a position to contribute a reasonable amount of business to the Company'.[88] Exceptions were rarely made: 'the Directors in respect of the long service of Mr. Macfarlane agreed to transfer the shares to the name of Mrs. Macfarlane, during her life'.[89]

Such a controlled distribution of shares should probably be seen as a means of encouraging customers and employees to identify with the company and obviously represented no threat to family control. It should be recalled that private company status required the board to control the transfer of shares and, in any case, the vast majority of voting shares were always retained by family members. Potentially a greater risk was posed by the dispersal of shares within the family. An examination of the records of the shareholding of private companies reveals a common pattern in which the shares were originally controlled by a small number of individuals, often the former partners, but over time were spread among increasing numbers of descendants. To give but two examples, when the Kirkcaldy firm of flourmillers and maltsters, Robert Hutchison & Co. Ltd., was incorporated in 1894, all the ordinary shares were held by two brothers and just under 80% of the preference shares by one maiden aunt. 66 years later, in 1960, 29 out of 42 shareholders, holding 72% of the shares, were Hutchisons or their descendants, but no single individual held more than 16% of the capital.[90] When the Fife Forge Co. Ltd. was incorporated in 1913, the former partners, John Harley, his son and his son-in-law, held all the shares. By 1957, they were distributed between 30 shareholders, all but one of whom were descended from John Harley.[91] Among companies with property valued at £250 or over in 1950 which had been launched before 1910, the average number of family shareholders had increased from 3.4 at their launch to 9.7 in 1950.

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[88] Kirkcaldy Museum, 79/1, Michael Nairn & Co. Ltd., Directors' Minute Book, 9.7.1902.
[89] Ibid.: 21.6.09.
[90] RoC: SCO02806/6, 112.
[91] SCO08553/2, 9, 79.

In one or two cases, deliberate inheritance strategies were followed to ensure that this dispersal of ownership did not affect control: Michael Barker Nairn, chairman and managing director of Michael Nairn & Co. Ltd. until his death in 1915, gave preference shares - and a guaranteed income - to his daughters, but ordinary shares to the sons who were destined to follow him.[92] More often, directors were able to maintain the size of their holdings by using their control of the trade in shares to buy the shares of any shareholders who wished to dispose of them. Despite such strategies, however, it was inevitable that few later generation business leaders possessed the level of ownership which firm founders or those responsible for incorporation had enjoyed.

Only very rarely, however, did this dispersal of ownership come to represent a threat to the control exercised by family directors. At one level, kinship ties were probably sufficient to maintain loyalty. Family shareholders appear to have been willing to make quite considerable sacrifices to preserve the family firm. In 1933, the firm of Robert Wemyss & Co. Ltd. reduced its capital by cancelling virtually all its preference shares and paying shareholders £6 per £10 share. Significantly, the only shareholder who did not consent to the transaction and therefore retained his holding was not related to the board.[93] In 1936, the shareholders in the Fife Forge Co. Ltd., all family, consented to the cancellation of the arrears on the preference shares and the reduction of the dividend due on them from 7.5% to 5%. Only the estate of the firm founder (his widow was still alive) and the two of the three directors who held preference shares received any compensation.[94] An explanation for such behaviour may be sought in the description offered by Scheid for the position the family firm comes to fill for many business families:

> The company has over the course of years in a mysterious way not only become a member of the family, it has become its centre (like the family seat for a noble family or the farm for the farmer and his family). The attitude of the entrepreneur and his family to the company will in most cases have taken on a new quality, and this can best be described with the old-fashioned

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92 SRO: BT2/2498/7, 9.
93 BT2/8826/36, 37, 41.
94 RoC: SCO08553/36.

> word 'serve'. They 'serve' the firm, and the company may well have become the main thing in their lives. Putting it before their own interests has become a means of fulfilment for them.[95]

At a more technical level, as Hay and Morris emphasize, mounting a challenge to board control in a family owned company is far from easy.[96] Florence points out that where shares are widely distributed the controlling interest in a firm may be well under a majority.[97] Equally important, a challenge required individuals able and willing to assume control of the company. By offering employment and seats on the board to those of the male shareholders and their descendants anxious to enter the family firm, such companies were able to forestall the development of centres of opposition. Where differences arose or where splits in the family threatened to affect the company, family firms in Fife appear to have moved quickly to resolve the crisis. When the post-war slump led to losses at Tullis, Russell & Co. Ltd. and differences on future policy emerged, the solution was for the Russell family to buy out the Tullis holdings in the paper mills, whilst a separate Tullis-owned company was set up to run the bleachfield.[98] A similar crisis appears to have shaken the firm of James Normand & Son Ltd. in 1903, and both the manager and one of the two Normand brothers left the board. On doing so, they also surrendered their shares which were acquired by the other Normand brother and his children.[99] In Smith, Anderson & Co. Ltd., Charles Anderson's will had left the company split equally between two distantly related branches of the Anderson family. In 1943 - one generation on - a formal agreement was drawn up regulating how each branch of the family was allowed to pass on shares and giving each side equal numbers of directors on the board.[100] When one branch chose to be represented by a director who was not a direct descendant, the other side of the family only accepted his appointment when convinced that it was in line with this agreement.[101]

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[95] J. Scheid 'The Family Business: Remnant or Elixir of the Market Economy?' German Yearbook on Business History, 1985, pp 8-9.
[96] D. Hay and D.J. Morris Unquoted Companies. Their Contribution to the United Kingdom Economy (London, 1984) , p.89.
[97] P.S. Florence The Logic of British and American Industry (London, 1953), pp.231-41.
[98] Ketelbey, pp. 205-6.
[99] SRO: BT2/1016/34, 37.
[100] RoC: SCO07002/59.
[101] Smith, Anderson & Co. Ltd., Directors' Minute Book: 23.5.45, 5.12.45.

Amongst the companies investigated, only one instance was found where a family dispute threatened the control exercised by the board. Since the battle ultimately resulted in a court case, the case is well documented. John Balfour left his shares in the family firm of John Balfour & Co. Ltd. split equally between his son, John Herbert, and daughter, Rosalind. After John's death in 1926, his son became managing director. The brother and sister, however, soon fell out. According to John Herbert, this was because his sister disapproved of his marriage, whilst Rosalind claimed that she and 'the other directors from information and complaints they received from shareholders and from their own observation were highly dissatisfied with the inattention to the business'. At a board meeting in August 1928, Rosalind (who had also inherited shares from an uncle) and the other directors forced John Herbert's resignation but he was not required to surrender his shares. The firm had a certain number of non-family shareholders and in the following years, John Herbert and an ally, Alexander Cook, a local solicitor, proceeded to buy up some of these shares and also to acquire shares from a family trust. By 1931, after an attempt by the board to sell the struggling firm to the rival Central Farmers Ltd., John Herbert and Cook had sufficient shares to challenge it. A first extraordinary general meeting was aborted when Rosalind's allies on the board failed to turn up and the meeting was inquorate. The board then attempted to sell shares to members of a rival enterprise, a procedure which was declared illegal by the courts. By the end of the year, Rosalind Balfour and her allies had resigned and John Herbert and Cook controlled the company.[102]

This case dramatically illustrates the threat which a family feud could represent for a family firm. Yet the circumstances which had allowed the situation to arise were distinctly unusual. Firstly, the company, unlike virtually all other family-controlled firms in the area, was not a private company and the board had no control over the transfer of shares. Secondly, John Herbert was not required to surrender his holding when he resigned from the board. This resulted in the development of a centre of opposition which, through the acquisition of further shares, was both able and anxious to challenge the board. Finally, the willingness of the board to

[102] This account is based on a Certified Copy of the Court Interlocutor for the court case of 16.2.1932 which has been preserved in the SRO as BT2/8912/54.

sell the firm in 1931, suggests a low commitment to continuing a rather unprofitable business. This may have been connected to the fact that Rosalind Balfour was the sole family member left on the board and the other directors were all non-executive.[103]

4.4.2 The Appointment of Non-family Directors

In most cases, therefore, the dispersal of ownership represented a means of rewarding employees and customers and of distributing wealth to descendants rather than a threat to the control exercised by family leaders. In terms of board composition and management, the evolution of family firms under limited liability also worked to reinforce this control, rather than undermine it.

As we have seen, even in the age of unincorporated partnerships, family firms often required to strengthen the management of an enterprise and this was frequently done by offering a junior partnership in the firm to able younger men. Nine of the companies investigated were so organised at the time of incorporation, and in all cases the capital structure of the partnership was inherited by the new limited company. Junior partners were allotted shares in proportion to the size of their holdings and became shareholders and directors in the new company. The rationale behind this behaviour was deep-seated. It was evoked in a memorandum by Lewis C. Grant of the firm of Douglas and Grant Ltd., when the suggestion was made in 1926 to appoint a Mr Stewart as a part-time salaried managing director of the company:

> My criticism . . . is that he is not to reside in Kirkcaldy - he is only to visit the Works at most four days a week - he is not to devote his whole energies and attention to the interests of Douglas and Grant Ltd. but is to carry on his own business as well . . . He is a man who has already made his money . . . and he is . . . neither to have a financial stake nor a personal stake in the business, in other words he could walk into the business to-day and out to-morrow, having wrecked same, without financial loss to himself and without damaging his reputation or future prospects. The usual and most important incentives which urge

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[103] See ibid., 49.

> anyone to do his utmost to make a success of the machine he is controlling are therefore in his case not there.[104]

If the idea that a manager needed to have a stake in the firm may have been the received wisdom of the period, during the inter-war years an increasing number of family-controlled firms were in fact appointing non-family directors who held no major share in the company. By 1945, firms such as Smith, Anderson and Co. Ltd., in which all directors were related, were very much the exception - and the appointment of outside directors in this firm may have been delayed by the terms of the inter-family agreement to which reference has already been made.

The appointment of these outside directors was designed to strengthen management. In the period before the Second World War, almost all non-family directors in family firms in Fife belonged to one of two categories. The first outside directors were often professional men, usually partners in Edinburgh law firms, or, later, chartered accountants. Such directors were clearly appointed to provide specific expertise. When John Hay Smith, W.S., was appointed to the board of N. Lockhart & Sons Ltd. in 1944, it was 'to assist the Board, particularly with regard to finance'.[105] The only non-family director of Tullis, Russell & Co. Ltd. prior to World War Two was Dr James Watt, a senior partner in the Edinburgh law firm of Davidson & Syme. The company history describes him as the company's 'expert adviser on Company and Commercial Law and general adviser to Sir David [Russell] on legal matters'.[106] The second category of non-family directors appointed were senior staff. As we have seen, William Reid, commercial manager, was appointed to the board of James Donaldson & Co. Ltd. on incorporation in 1919. He served until his retirement in 1946. In 1938, he was joined by John Barron, company secretary, and he too remained on the board until his death 20 years later.[107] George Craig, secretary to the Boase Spinning Co. Ltd. since its incorporation in 1886, was appointed to the board in 1919.[108] He was obviously a trusted man and the autocratic chairman and General Manager of the firm, William

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104 ULDA, 45/3/2/ (17), Douglas and Grant papers.
105 N. Lockhart & Sons Ltd.
106 Ketelbey, p. 261.
107 RoC: SCO10528/7, 33, 43, 60.
108 SRO: BT2/1541/1, 48.

Lindsay Boase, took the opportunity of a board meeting in 1900 to inform his son that there was 'some misconception as to the relative position of a director and a secretary of the company' and that at the Leven mills, Craig was responsible: 'if a resident director disagreed on an issue, he should refer to the General Manager'.[109] When the company was re-formed in 1920, the prospectus stressed that Craig together with two members of the Boase family had consented to join the board, and he was a director until his death in 1931.[110]

Only in a few of the family firms investigated did senior staff assume full executive responsibility. Where this happened, the most usual reason was because no family members were available to lead the company. In N. Lockhart & Sons Ltd., for instance, Thomas Kay became the sole director after the death of the older generation of Lockharts and whilst the only surviving male descendant was on active military service. In 1945, Thomas Kyd Lockhart returned and was appointed to the board, and by the early 1960s he had replaced Kay as managing director.[111] In Robert Wemyss & Co. Ltd., after the death of the two original partners, there appear to have been no family members resident and able to manage the company, and two employees were appointed to the board.[112] Only two cases were found where family businessmen chose to delegate executive responsibility. One of them was John Haig & Co. Ltd., where Charles Taylor was appointed secretary and manager at the first meeting of the board in 1894. Taylor appears to have been entrusted with a wide range of issues, including the delicate negotiations with the marketing firm of Haig and Haig Ltd., where family links complicated rather than facilitated relations.[113] On his death, he was succeeded by Thomas Wilkinson, another professional manager, who was left virtually in sole charge of the firm during the First World War, owing to the absence of no less than four Haig directors on military service. When the negotiations with Distillers which led to the takeover of the company in 1919 were opened, these were entrusted to Wilkinson and the company's

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[109] ULDA, MS66/IX/1/1, The Boase Spinning Co, Ltd., Directors' Minute Book, 10.5.1900.
[110] RoC: SCO11107/20, 39.
[111] N. Lockhart & Sons; RoC: SCO15658/33, 63.
[112] SRO: BT2/8826/32, 46, 47.
[113] Distillers Archive, John Haig & Co. Ltd., Directors' Minute Book, Vol. 1: 20.4.1894, 17.4.1905.

financial advisor.[114] In this case, the Haig family's wide business interests as well as their military careers kept them from a greater involvement in the company, although the family was always well-represented on the board. In the case of N. & N. Lockhart Ltd., distance appears to have been the key factor. The firm was bought in 1915 by the Ireland family who also owned a flax mill near Lille and remained resident in France. The operation of the Kirkcaldy spinning mill was entrusted to John Mackie, who had served the company since 1906. He was appointed to the board in 1924 and was to remain director until his death in 1977.[115]

Where employees were appointed as directors in family firms, it is likely that they wielded real influence. The depth of their experience of the business and their length of service must have given their opinions great weight, and the evidence suggests that they were trusted and listened to by family entrepreneurs. Yet their election onto boards did not constitute a 'managerial revolution'. First of all, unlike junior partners in unincorporated companies, they rarely held a stake in the firm. Reid held at most 350 of the 7500 shares in James Donaldson & Sons Ltd., his successor Barron, never more than 183.[116] Mackie never held more than one share in N. & N. Lockhart Ltd., the minimum requirement for a director.[117] When such directors resigned, they were often required to return their holdings. Only where a former junior partner had received shares on incorporation, did they and their families retain them. In 1950, of the seven limited family firms holding property with a rateable value of £250 and where a second unrelated individual or family held more than 5% of the shares, for six of them the partnership went back to incorporation and for five the link pre-dated 1900.

Secondly, if by 1950, few firms had no non-family directors, such directors remained few in number. Of the twenty largest family firms in the Kirkcaldy area in 1950 in terms of property valuations, in only four were there no non-family directors, but in eight there was only one and in only one case were

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[114] Ibid., Vol 2. 24.12.1914,7.6.1916, 6.2.1918; J. Laver The House of Haig (Markinch, 1958), pp. 51-2.
[115] Edinburgh Gazette, 1915, p. 2431; Kirkcaldy Museum 60/16, letter by J. Mackie dated 3.2.1973; RoC: SCO10348/ 9, 11, 20, 100.
[116] RoC: SCO10528/44, 60.
[117] RoC: SCO10348/4.

there more than three. In only three cases, did they out-number family directors.

Probably of greatest significance, however, was the relationship which existed between these outside directors and the family. The non-family director who had started working for the company at a very young age and had worked his way up from a junior position is a common figure in company histories. Charles Taylor was trained at Cameronbridge before moving with the Haigs to Markinch; Thomas Kay who served as a director of N. Lockhart & Sons Ltd. from 1930 to 1964 and was at times both manager and chairman, started working for the company as an office boy in 1899, aged 14.[118] The annual general meetings of Michael Nairn & Co. Ltd., were used by the chairman to congratulate some of the 'ever-growing list of employees attaining forty or fifty years service'; many directors were mentioned, including G.O. Mackenzie, who retired in 1943 after 58 years service to the company and Sir John Wallace, who had completed 65 in 1950.[119] Family firms valued such career patterns. When asked about management recruitment, the employers told the Working Party on the Linoleum and Felt-Base Industries in 1946 that:

> Past history has shown that success has been obtained by the recruitment of executives from within the industry and a proportion of potential executives can be recruited from the Universities. It has, however, been felt that loyalty built up over the earlier years has been invaluable, and traditional loyalty is an important factor in maintaining continuous harmony within an organisation.[120]

These non-family directors had no professional experience or major source of income outside the firms in which they had made their careers and ultimately they were dependant on and seen as subordinate to the family directors who had appointed them. To use the phrase which Coleman has made famous, they were 'players', where family directors were 'gentlemen'.[121] Hay and Morris in their analysis of large unquoted

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118 DCL Gazette, January 1932; N. Lockhart & Sons Ltd.

119 Kirkcaldy Museum, 79/3, M. Nairn & Co. Ltd., General Meeting Minute Book, 6.1.1943, 7.1.1944, 23.1.1950.

120 Kirkcaldy Museum Y79/15/1, Employers' Evidence to the Working Party on the Linoleum and Felt-Base Industries.

121 D.C. Coleman 'Gentlemen and Players' Economic History Review, 26, 1973.

companies based on interviews conducted in 1980 suggest that most were run by an 'effective controlling group', smaller than the actual board and dominated by family members which made the most important decisions.[122] Such a model would appear to fit family firms in Fife in the first half of the twentieth century. In a few instances this relationship was even formalised. When, in 1941, partly as a result of the absence on military service of family directors, non-family members were admitted to the board of Tullis Russell & Co. Ltd., a new status of Ordinary Directors was created. It was specifically stated in the amended articles that Ordinary Directors were to be employees of the company, that they were only to attend board meetings by invitation, and that the board would assign duties to them.[123]

The relationship between employee and family directors is well illustrated by Michael Nairn & Co. Ltd. where the survival of directors' minute books for the period up until 1920 gives an insight into how decisions were made in a family-owned company. Nairns followed a policy of appointing senior employees to the board from incorporation in 1893 on, and such directors were at times in the majority on the board. However, prior to the Second World War, only two of Nairns non-family directors were based in Kirkcaldy. The others were the managers of the warehouses in Glasgow, London, Manchester and elsewhere and attended three or four meetings a year. In between, a smaller group of managing directors who were family members made all decisions, however major. In 1899, Michael Barker Nairn reported to the board that 'he had made an arrangement for acquiring a controlling interest' in a French linoleum company.[124] In 1907 and 1908, the managing directors agreed to spend over £50,000 on extending the works.[125] Where the views of non-family directors are recorded in the minute books, it is in support of policies already decided and on topics where they had particular expertise: 'it was the opinion of the several Warehouse Managers present, that it would not be unwise to proceed with further extension for the manufacture of cheap floorcloths in 2 yards wide goods'.[126] Although the opinion of these long-serving senior employees

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[122] Hay and Morris, p. 98. A similar point is made by T. Barna Investment and Growth Policies in British Industrial Firms (Cambridge, 1962), p. 32.
[123] Ketelbey, pp. 261-4; RoC: SCO06195/78.
[124] Kirkcaldy Museum, 79/1, M. Nairn & Co. Ltd., Directors' Minute Book, 10.8.1899.
[125] 79/1, 19.6.1907; 79/2 18.6.1908.
[126] Ibid. 9.4.1897.

was obviously valued by the managing directors, a seat on the board had as much to do with reward and status as with actual power. In 1935, a petition was presented to the courts to change the memorandum of Michael Nairn & Co. Ltd., so as to allow the company to grant annuities to Directors when they were employees. In justification, the company argued: 'it is frequently in the interests of the company that certain of their salaried officials should enjoy the status which membership of the Board confers'.[127]

The absence of company minute books for the inter-war years makes it impossible to follow the way board relations developed, but the minute books which exist for the period after 1954 do reveal a change of style - best illustrated by the shift from the individual 'I' to the collective 'we' in the quoted remarks of the chairman. Yet the chairman, Sir Michael George Nairn, dominated a key discussion on whether to continue a loss-making line in tufted carpets and took the initiative in introducing American techniques for retrogravure and vinyl production in 1958-60.[128] Moreover, it was the seven family directors on the board who also sat on the boards of the other companies in the group, including the holding company, Michael Nairn & Greenwich Ltd., which included four family members in 1960.[129]

4.4.3 The Resilience of Family Domination

The adoption of limited liability, therefore, did change the ownership and management structures of family firms. Ownership was dispersed within and outwith the family and non-family professional men and employees were appointed onto boards. At the same time, these changes were not permitted to undermine the control exercised by family leaders. Family control in family firms evolved but was not diluted. If the position and authority of individual entrepreneurs was less prominent than in the Victorian era, business families in the Kirkcaldy area remained committed to maintaining active control of the firms they owned. The result was the survival into the post-war years of a way of running businesses which was shared by many family firms.

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[127] SRO: BT2/2498/98.
[128] Kirkcaldy Museum, 79/3 & 4, M. Nairn & Co. Ltd., Directors' Minute Books 12.9.1957, 10.4.1958, 30.6.1960.
[129] SRO: BT2/2498/150; The Stock Exchange Official Year-Book, 1960, p. 2826.

This can be seen first of all in terms of the composition of boards. Boards were small and dominated by family members. In 1920, there were 15 limited companies in the Kirkcaldy area with property valued at £200 or over in which related individuals held a majority of the shares. Boards varied in numbers from two to seven, and the average was 3.9. Nine had a family majority, on five family and non-family were present in equal numbers, and on only one were non-family members in a majority. In 1950, there were 21 companies in this category, of which data was located for 18. Board size now varied from two to eleven, but average size was still only 4.1. Thirteen had a family majority, five equal numbers and three a majority of non-family directors.

This family dominance at board level was due to both the number of family directors appointed and to the length of time they served. The 18 largest incorporated family firms in 1950 had had on average eleven directors since incorporation of which seven were family members. Virtually every male son or grandson who survived to adulthood of men such as William Verden Anderson, David Russell, John Harley or Alexander M'Intosh served on the boards of the companies they incorporated. When William Lindsay Boase died in 1910, all five of his sons were on the board.[130] Where there were no sons, female relatives were appointed. When James Meikle & Co. Ltd. was incorporated in 1940, the firm founder was joined on the board by his wife and eldest daughter; after his death in 1955, the company was run by three of his four daughters.[131] Family directors were also appointed relatively young, and served for long periods, frequently until death. Michael Barker Nairn became a partner aged 23 and served as partner and director for 57 years. His two sons served on the company's board for 53 and 54 years respectively. When Robert Spencer Nairn retired in 1957, aged 77, he was succeeded as chairman by his nephew, and six other family members sat on the board. The 13 family members of the board of Michael Nairn & Co. Ltd. between incorporation in 1893 and liquidation in 1966 served on average 30.8 years - the other 20 directors, on average 16.5 years.[132] For Robert Hutchison & Co. Ltd. (incorporated in

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[130] SRO: BT2/1541/35.
[131] RoC: SCO021124/8, 29.
[132] Muir, p. 158; SRO: BT2/2498/150.

1893 and taken over in 1972) the equivalent figures are 30.8 for family directors and 9.2 for non-family ones;[133] for James Donaldson & Son Ltd. (incorporated 1919) the figures were 30.6 and 17.6 for the period to 1976 when the board was enlarged. In 1971, the chairman George Victor Donaldson died in office after 48 years on the board and was replaced by his brother, who had served 44 years.[134]

Within these boards, family members played an active and indeed dominant role. The Register of Company returns only rarely designate chairmen and managing directors, but where they do, family members almost invariably filled these posts. The importance attached by those who incorporated companies to maintaining their authority and the relationships between family and other directors has already been discussed. Where other evidence on the relations between directors was found, it confirmed this emphasis on firm leadership. On incorporation in 1893, William Lindsay Boase explained to his fellow directors how he saw their respective roles:

> The General Manager explained to his Co-Directors how he regarded their position in the management of the business of the Company, that by the Articles of Association, the general control of the business, and responsibility for it, rests upon the General Manager and that therefore no business of any magnitude in either buying or selling should be carried through without reference to him. In his unavoidable absence the Directors will of course take counsel together and the decision of the majority shall prevail.[135]

Little control on the managing director was apparently exercised by the non-executive directors of Smith, Anderson & Co. Ltd. in the 1920s and 1930s. Board meetings were held at most twice a year and were little more than a formality. In 1931 the minute book notes that a director was 'called away on the morning of the meeting, but as the business of the meeting had all been arranged previously and agreed upon it was decided to carry on'.[136] If, as we have seen, L.C. Grant doubted Stewart's credentials to lead Douglas and Grant Ltd., he had no doubt that the company had

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133 RoC: SCO02806.
134 SCO10528.
135 ULDA, 66/IX/1/1, The Boase Spinning Co. Ltd., Directors' Minute Book, 29.3.1893.
136 Smith Anderson & Co. Ltd., Directors' Minute Book, 18.5.1931.

suffered from an indecisive board, that 'a good strong man must be selected', and that 'this man might act both as Chairman and Managing Director'.[137]

Managing directors and other family board members, furthermore, played an active part in the day-to-day running of their businesses. A report on the internal organisation of Douglas and Grant Ltd. in 1921 reveals that every costing estimate made and all orders for new machinery and stocks were first submitted to the managing directors. Weekly meetings reviewed not only the progress of all contracts and expenditure, but also wages paid and the number of men absent through illness.[138] The tradition whereby sons entered the business young and worked their way up to the board via posts such as company secretary or works manager reinforced family influence. All three of David Russell's sons and two of his grandsons entered Tullis, Russell & Co. Ltd. in their twenties.[139] Before the First World War, several of William Lindsay Boase's sons were employed by his firm. One son was in charge of the mill in Leven, a second acted as agent in India and Australia, whilst a third was put in charge of a factory which the firm acquired in Cupar. On his death, power was shared between them.[140] Elsewhere too, where two or more brothers succeeded to an enterprise, responsibility for different aspects of the business was split. The anonymous historian of Robert Hutchison & Co. Ltd. suggests that Alexander Hutchison, chair of the company until his death in 1904, concentrated on the flour-milling side of the business, whilst his brother Henry took a 'particular interest in the malting side of the firm's activities'.[141] In the Allen Lithographic Co. Ltd., brothers George and Alexander Allen concentrated on administration and sales and on production respectively.[142]

If great emphasis was placed on the authority of family directors, the other side of the coin was the expected loyalty of staff. The importance attached to the long and faithful service of senior employees in Nairns has already

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137 ULDA, 45/3/2 (48).
138 Ibid, 45/3//2 (1).
139 Ketelbey, pp. 184-5, 261-2.
140 ULDA, 66/IX/1/1, The Boase Spinning Co. Ltd., Directors' Minute Book, 8.5.1907, 24.2.1908, 30.5.1910.
141 Anon., 'The Hutchisons of Kirkcaldy ' (unpubl. manuscript, no date), pp. 86, 96.
142 Our Progress in Print, p. 7.

been mentioned; the company histories of such firms as John Davidson & Son Ltd. or the Allen Lithographic Co. Ltd. also highlight senior employees who had worked their way up from junior posts or had served the company for decades.[143] Morris and Smyth describe how Fife firms such as Michael Nairn & Co. Ltd. and John Fergus & Co. Ltd. used annual bonuses, the provision of non-cash benefits, and family celebrations in order to encourage an identification with the family and loyalty to the firm amongst the wider workforce.[144] In this they were not alone. The papers of the Boase Spinning Co. Ltd., N. Lockhart & Sons Ltd., and Henry Balfour & Co. Ltd. contain records of similar celebrations organised for the factory workforce to mark weddings and other family events; the Wemyss Coal Co. Ltd. provided extensive housing for its workers throughout the East Fife coalfield, whilst Tullis Russell and Co. Ltd., as well as providing housing and social and sporting facilities for its employees, pioneered the provision of preventative medical care for employees.[145] To the company historian all this was part of the ethic of the company:

> The Firm is rooted in the deep soil of Fife and in long and linked family traditions. The Directorate is itself under a self-discipline that is noticed by the men and women in the Mills . . . The real humanity of the Management has been proved and tested, inherited and handed on for one hundred and fifty years by proprietors and employers . . . So has the attachment of families who, father and son, have helped to bring the Firm to its present stature.[146]

The emphasis in this passage on age, on tradition, and on service to the community, were different to the self-image of nineteenth-century business. Family business clearly changed over time. Nenadic describes the contrast which is frequently made in privately published histories of family firms between the founder, 'a maverick entrepreneur in the classic mould, blessed with superhuman energy, blunt manners and idiosyncratic interests' and the 'blandly conservative and safe' later generations. If, as

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[143] See John Davidson & Son Ltd., Our Progress in Print, pp. 9-12.

[144] R. Morris and J. Smyth 'Paternalism as an Employer Strategy, 1800-1950', in J. Rubery and F. Wilkinson (ed.) Employer Strategy and the Labour Market, (Oxford, 1994), esp. pp.8-11, 14-17.

[145] J. Frew and D. Adshead '"Model" Colliery Housing in Fife. Denbeath "Garden" Village, 1904-1908', Scottish Industrial History, 10, 1987; Ketelbey, pp. 235-240.

[146] Ibid., pp. 241-2.

she writes 'the narrative details were not always true',[147] the contrast reflected a real shift, as firms dominated by single entrepreneurs evolved into institutions in which the family was given greater prominence than any individual. Yet the evolution of the family firm did not mean any slackening of family control. Owning families remained committed to maintaining active control of their businesses. Limited liability did not undermine the family firm, but gave it the resilience to survive over time.

4.5 'Family' Capitalism without Family Ownership

As was explained in the Introduction, the survival of family ownership and control in business has recently once again become the subject of interest to historians seeking to explain Britain's relative economic decline. This is largely due to the work of two American business historians interested in comparative economic development. Chandler in his much discussed Scale and Scope. The Dynamics of Industrial Capitalism, uses Britain's 'continuing commitment to personal management and therefore to personal capitalism' as one of the fundamental arguments to explain Britain's slower economic growth.[148] Although Chandler has relatively little to say about why British businessmen retained this commitment,[149] he argues that it delayed the 'three pronged investment in production, distribution and management' which alone would have allowed Britain's leading companies to keep up with German and especially American ones.[150]

Lazonick also sees Britain falling behind the United States and, later, Japan because of the structure of its business. Relying on a skilled and disciplined workforce and on market coordination, British entrepreneurs in the nineteenth century had developed an efficient industrial economy marked by extreme business fragmentation. Investment in 'organizational capability' was low, since external economies, including skilled labour, 'permitted capitalist families to avoid the separation of capital ownership

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147 Nenadic, p. 88.
148 Chandler Scale and Scope. The Dynamics of Industrial Capitalism (London, 1990), p. 235.
149 Chandler's comments on the reasons for the survival of family capitalism are surprisingly brief. See ibid., pp. 240, 335, 390.
150 Ibid. p. 8. See also in particular pp. 8-13, 235-42, 389-92.

from managerial control; their firms remained proprietary'.[151] In the long-run, however, such enterprises failed to develop the internal economies of scale which were necessary to keep them competitive:

> After the turn of the century, the largest British enterprises were not only much smaller than the largest U.S. enterprises, but also much more under the control of family ownership. The British practice of passing on managerial control of the firm to family members from generation to generation, regardless of relevant career credentials, stifled the growth of the enterprise and the development of organizational capability. The family firm often adopted an nonexpansionary strategy in order to avoid becoming dependent on outside creditors or shareholders who might threaten loss of control or to avoid becoming reliant on, and potentially subservient to, a bureaucracy of technical specialists and middle managers.[152]

A more detailed analysis of the problems of family firms is provided by Boswell in The Rise and Decline of Small Firms, which uses interviews carried out in 1970 to explore the dynamics of growth and decline in a sample of 64 private manufacturing companies employing between 25 and 500 employees. Although Boswell also writes about the potential of small firms, he devotes considerable attention to the problems of decline and concludes that 'the main causes of decline appeared to be market and technological factors and the limitations of inheritor management. But the human factor seemed the most important . . .'.[153] For him, the problems created by family ownership and control loom large. He quotes examples of family firms where an older generation, sometimes in their 80s, refused to let go or considered themselves irreplaceable and of others where no obvious successor existed; of inheritors who lacked the qualifications or training necessary for the positions to which they had been elevated, or who did not really desire this authority; of a reluctance to appoint employees, let alone outsiders, to top jobs and to accept that such appointments would only benefit the firm if they led to real changes. Very often such management problems had developed slowly over a considerable period of time and were linked to technological factors or the contraction of a traditional market which condemned the firm to a steady

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[151] Lazonick Business Organization and the Myth of the Market Economy, (Cambridge ,1991), pp. 25-7.
[152] Ibid., p. 48. See pp. 45-9.
[153] J. Boswell The Rise and Decline of Small Firms, (London, 1973) p. 140.

decline unless decisive action was taken.[154] Boswell uses the term 'Congealment' to describe these problems and stresses the contrast of his conclusions to the usual picture of small firm flexibility.[155] The difference is one of age: most of Boswell's 'congealed' firms had existed for several decades. The balance of forces in favour of survival was simply too great:

> In fact, the analysis suggests how tough-grained and yet sponge-like these old declining firms could be. On the one hand, since their owners could not surrender or move elsewhere without pain, loss or disgrace, they showed an unconscionable, although perfectly understandable, desire to keep their sagging or decrepit businesses alive. More, they were in a strong position to do so. Not only could they mobilize a wide array of psychological, operational and financial weapons intrinsic to the firm, as well as displaying sparks of the Dunkirk spirit personally. They could also throw into the battle that precious extrinsic resource, generally moderate but strategically critical, of established income and wealth.[156]

For Boswell, therefore, it is precisely the retention of control by family members which is responsible for the survival of these firms. Since he has no doubt that this survival is detrimental to the British economy, he ends his work by arguing for legislative action to make the inheritance of business wealth less easy:

> The inheritance system, which has contributed to the obsolescence problem, misemploys many family people and exacerbates the obstacles to new entrepreneurial entry. Yet it persists in the large majority of older firms - without any great enthusiasm - for the reasons explained. In declining industries the old and inefficient small firms impede rationalization and structural change. Such firms contribute to the immobility and inefficient use of resources. They tie up fixed and liquid capital - land and buildings, particularly in built up areas, and invested or deposited family reserves - which could be put to better use elsewhere. Not least, the obsolete and obsolescing firms sit on a large chunk of labour.[157]

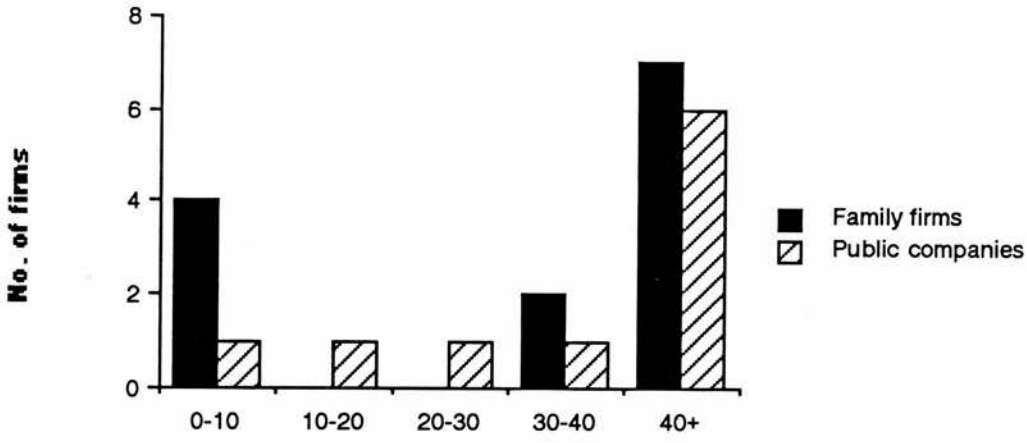
Boswell deliberately concentrates on private companies and is mostly concerned with family owned ones, arguing that 'the specifically family [his

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[154] Ibid., See in particular, pp. 80-8, 123-31, 145-52.
[155] Ibid., p. 143.
[156] Ibid., pp. 161-2
[157] Ibid., p.183.

emphasis] influence in small firms is both fascinating and critical'.[158] This, however, does mean that he does not tackle the question which has been raised by Coleman when commenting on management styles in larger firms in the inter-war years,[159] as to whether the behaviour of companies which were not family firms was so markedly different. The relevance of this question is underlined by the very similar survival rates of firms in the Kirkcaldy area, regardless of ownership. Figure 4.2 compares the survival rates of limited companies with property valued at £250 or over in 1920 in which over 50% of the shares were controlled by related individuals with those in which no family held more than 25% of the shares. It will be seen that the majority of firms in both groups were still extant 40 years later. Furthermore, both family firms and other locally-owned companies were affected by the wave of closures and takeovers in the 1950s and 1960s. The period between 1950 and 1970 saw nine family and six other locally-owned companies with property valued at over £250 close, whilst three in each category were taken over by outside interests.

Figure 4.2: Longevity of public and family-owned companies



Note: Number of years from 1920 to closure of limited companies using manufacturing or coal-mining property in 1920 valued at £250 or over (companies with respectively over 50% and under 25% of shares held by related individuals).
Source: See Table 2.4.

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[158] Ibid., pp. 15-6.
[159] D.C. Coleman 'Failings and Achievements: Some British Businesses, 1910-1980' in Davenport-Hines and Jones, pp. 2-3.

Moreover, many of the features previously identified as characteristic of the way family firms in the Kirkcaldy area were run in the first half of the twentieth century, were replicated or paralleled - if at times for different reasons - in those firms which were not owned and run by single families. The rest of this section will consider these other firms active in the Kirkcaldy area and compare their ownership and management structures to those of family firms. In this, the emphasis will be on firms with dispersed ownership, but, where relevant, the small number of subsidiaries present in Fife before the 1950s will be considered, as will the laird-owned coal companies which form an in-between group, since although family-owned, their boards and management were closer to that of public companies. In examining the internal structures of these firms, attention will be paid in turn to the composition of boards, to management, and to the relationship between those who ran businesses and the shareholders.

4.5.1 Board Composition

In firms which were not dominated by a single family as in family firms, boards were small, directors served for long periods, often into old age, and family links were significant. If property values are used as a measure of company size, the ten largest non-family manufacturing or mining companies registered in Fife in 1920 had on average 5.4 directors; in 1950 the average was 5.9. The Fife Linoleum Co. Ltd had six directors between incorporation in 1904 and liquidation in 1933, and they served an average of 18.3 years.[160] The seven subscribers to the Burntisland Shipbuilding Co. Ltd., launched in 1918, served an average 18.6 years on the board.[161] For the Fife Coal Co. Ltd., established in 1872, re-formed in 1895 and dissolved after nationalization, the average term of office was 16.4 years and six directors served for periods of over 30 years. Eighteen of the company's thirty directors, moreover, died in office.[162] Despite the absence of controlling shareholdings, sons often followed fathers onto boards. In Henry Balfour & Co. Ltd., engineers, James Hamilton Bowman served beside his father Archibald Bowman on the board from 1914 to 1924, whilst

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160 SRO: BT2/5734.
161 RoC: SCO10033/5.
162 A. Muir The Fife Coal Co. Ltd. A Short History (Leven, 1954), p. 120.

Alexander Hutchison was replaced in the late 1940s by his son I.M.O. Hutchison.[163] In Barry, Ostlere and Shepherd Ltd., Eric and Harold Ostlere and John Ernest Shepherd all served for long periods on the board of the company named after their fathers, whilst four of the company's nine directors in 1959 were the sons of men who had also served on the board.[164]

Companies such as Barry, Ostlere & Shepherd Ltd., Henry Balfour & Co. Ltd. and the Boase Spinning Co. (1920) Ltd. had grown out of individually-owned or family firms or amalgamations of such companies, and single families retained significant if minority shareholdings. In Barry, Ostlere and Shepherd Ltd., for instance, the Ostlere family still held 64,609 of the 650,000 ordinary shares in 1925 (although John Ernest Shepherd had only 6017), whilst the Balfour family still held 22% of the shares in Henry Balfour & Co. Ltd. in 1920.[165] In these instances, seats on the board might represent both firm traditions and the significance of the holding. Elsewhere too, where subscribers retained large holdings in the companies they launched, as was the case in William Young & Co. Ltd., they might also command a seat on the board, and the families of three subscribers in this company were represented on the board throughout its history.[166]

In other cases, however, directors were appointed who held no major shareholding in the company. These men were often leading figures in local family firms. Thus, the chairman of the Fife Linoleum Co. Ltd. from its incorporation in 1904 until its liquidation in 1933 was Sir Robert Cook Lockhart, a partner and later director and chairman of the family linen firm, N. Lockhart & Sons Ltd. Also on the board were John Harley, founder and main shareholder in the family-owned Fife Forge Co. Ltd., and James Aitken Shepherd, majority shareholder of the Glasgow family-owned firm of James Shepherd & Co. Ltd. None of these men ever held more than 4% of the capital in the company.[167] In 1930, the board of Henry Balfour & Co. Ltd. included Dr. Robert Balfour Graham, a local doctor who had married into the Balfour family and who presumably represented their interest,

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163 RoC: SCO03138/31, 56, 83, 109.
164 SCO04357.
165 ROC: SCO04357/53; SCO03138/42
166 SRO: BT2/1711.
167 SRO: BT2/5734.

James Shepherd, a Leven-based solicitor who sat on the board of several local companies, Alexander Hutchison, of the family-owned firm of Robert Hutchison & Co. Ltd., and George Smith Tullis, formerly a director of Tullis, Russell & Co. Ltd. and brother to Robert Tullis, of Robert Tullis, Junior, Ltd.[168]

Companies which had been launched in Edinburgh and where shareholders resident in the Lothians predominated, had fewer Fife-based directors. Yet the Edinburgh businessmen who directed these companies also often had their roots in family businesses. Sir John Cowan, who sat on the board of a number of Fife-based companies in the first decades of the century, including John Balfour & Co. Ltd., Douglas & Grant Ltd., and the National Steel Foundry (1914) Ltd., inherited the Edinburgh firm of Redpath, Brown & Co. from his uncle and was the sole partner from 1873 until its incorporation in 1896, when he became chairman.[169] Sir James Calder, the largest shareholder in the Kinghorn Bottle Co. Ltd. and director from its incorporation in 1908 until 1936, came from an Alloa brewing family and sat on the board of various family companies, as well as having extensive interests in distilling.[170] Similar men sat on the boards of the coal companies including those which were owned by landed families. Archibald Bowman, who was nominated by Randolph Wemyss to sit on the board of the Earl of Rosslyn's Collieries Ltd., had made his money in Bowman & Co. which first developed the Muiredge collieries, and sat on the board of several other leading Fife companies.[171]

As for the Fife Coal Co. Ltd., its directors included leading coal owners, merchants and industrialists from throughout the East of Scotland, such as William Lindsay, one time Provost of Leith, Thomas Aitken, managing director of the London & Edinburgh Shipping Co. Ltd., Sir Adam Nimmo of the family firm of James Nimmo & Co. Ltd. and a leading figure in the Mining Association of Great Britain, Sir William Robertson of the

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[168] RoC: SCO03138/67; Kirkcaldy Museum 67/6/7 Henry Balfour & Co. Ltd. papers.
[169] See the entry on Sir John Cowan by C.W. Munn in A. Slaven and S. Checkland (eds.) Dictionary of Scottish Business Bibliography 1860-1960 (Aberdeen, 1986), Vol. 1, pp. 161-2.
[170] SRO: BT2/6903/7, 57; R. Weir 'Sir James Charles Calder' in Slaven and Checkland, Vol. 2, pp. 28-9.
[171] Earl of Rosslyn My Gamble with Life (London, 1928), p. 147, A.S. Cunningham Rambles in Scoonie and Wemyss (Leven, 1905) p. 150.

Dunfermline linen firm of Hay and Robertson Ltd. and Lord-Lieutenant of Fife, and Sir Michael Nairn of Michael Nairn & Co. Ltd. Even those directors who had achieved fame in other fields such as Field-Marshal Earl Haig and the Liberal Chief Whip, Lord Hutchison of Montrose, were also descended from Fife business families.[172] Scott and Hughes emphasize that such men formed part of a complex web of inter-locking directorships and other business ties which linked Scotland's leading industrial and financial interests.[173] At the same time, it is important to note that most were family businessmen who had first made their money in family-owned firms and usually continued to play a leading part in them.

Erickson suggests that the number of non-executive (and non-steel) directors she identified in public steel companies in the 1930s reflected 'the idea that control and management were separate functions which should not be held in the same hands', but that thereafter the situation changed as it became increasingly common to appoint 'active executives' to the board.[174] Although there is some evidence of this shift in the Kirkcaldy area, it was confined to a minority of companies. Overall, the 54 directors of the ten largest non-family firms in the Kirkcaldy area in 1920 included 43 who were either major shareholders or directors of businesses elsewhere, and only 13 who owed their seat on the board to their employment by the company. In 1950, of the 59 directors of the ten largest companies, 30 belonged in the first category and 23 in the second. However, ten of the employees were on the boards of two of the companies - The Burntisland Shipbuilding Co. Ltd. and The Boase Spinning Co. (1920) Ltd. - which were the only two to regularly appoint employees to the board. In 1950, the directors in most non-family firms in the Kirkcaldy area were still drawn from the same circle of businessmen as the leaders of family firms.

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[172] A. Muir Fife Coal Co., esp. pp. 1, 120; M. Kirby and S. Hamilton 'Sir Adam Nimmo' in Slaven and Checkland, Vol. 1, pp. 57-9, S. Hamilton 'Thomas Aitken' in ibid., Vol. 2, pp. 258-60; Who Was Who 1916-28, Vol. 2 (London, 1929), pp. 450, 582; ibid., Vol. 4, p. 898.
[173] J. Scott and M. Hughes The Anatomy of Scottish Capital (London, 1980). See, in particular, Ch.2 on the inter-war years.
[174] C. Erickson British Industrialists. Steel and Hosiery, 1850-1950 (Cambridge, 1959), p. 192.

4.5.2 Management in Non-Family Firms

It is clear that a board which included significant shareholders and men who possessed outside business interests could not operate in the same way as, for instance, that of Michael Nairn & Co. Ltd. Nevertheless, there were certain similarities between the way family-controlled and other firms in the Kirkcaldy area were run. Non-family firms in the Kirkcaldy area, like family-controlled ones, were managed by single individuals or small groups of men. Although internal board relations are a difficult area to investigate, considerable power appears to have been invested in general managers or managing directors to act on their own or in conjunction with the chairman. The Earl of Rosslyn described his managing director as 'businesslike and dictatorial' and writes of Charles Augustus Carlow that he 'with another great man, Sir Adam Nimmo [the chairman], more or less rules the destinies of the Fife Coal Company'.[175]

The surviving papers of two companies do shed some light on how a board composed of non-executive businessmen with outside interests worked together with an autocratic managing director. In the case of Henry Balfour & Co. Ltd., several reports written in the 1930s and 1940s for the board by the managing director, William Lindsay Burns, have survived. They indicate that Burns was given considerable freedom and took many of the initiatives which made the company successful. Burns joined the company in 1929 and 'decided that if the company was to survive these bad times, it must change over to more specialised products'.[176] In 1933, he was instrumental in persuading the American Pfaudler Corporation to open a jointly owned subsidiary, Enamelled Metal Products (1933) Ltd. which exploited Pfaudler technology to produce glass-lined metal containers. Burns became managing director of this company as well and pushed successfully for further investment to increase its range of products.[177]

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[175] Rosslyn, pp. 146,155.
[176] SRO: GD410/251/14 Henry Balfour & Co. Ltd papers.
[177] GD410/192, 196, 200. E.M.P. (1933) Ltd. Managing Director's Reports for 30.6.1938, 10.4.1941, 18.5.1944.

The War required a redirection of production and again Burns claimed credit for many of the changes: 'late in 1939, it was clearly evident that we were in for a very hard time, and the Chairman and I, being aware of the situation, did everything in our power to minimize the losses which we knew were inevitable'.[178] During the War, Burns authorised considerable expenditure on the works with only the consent of the chairman, and his reports assumed that the directors knew little about developments on site 'in view of of the very few meetings which now take place'.[179] He assumed, furthermore, that they were chiefly interested in the company's profitability and regularly found it necessary to justify the size of the overdraft. In one report, Burns wrote that before his arrival 'the works were, as you know, extremely unsatisfactory', and concluded another by reminding his colleagues of the improvement since then:

> On looking back to the days when I first joined this Company and when we had approximately 250 to 300 employees, with an output of approximately £50,000 per annum, I feel very proud that to-day we have been able to increase to approximately something between 1100 and 1200 employees with an output of approximately one million pounds per annum.[180]

In the case of the Burntisland Shipbuilding Co. Ltd., several annotated agenda books from board meetings between the launch of the company in 1918 and 1945 give some indication of how a board which included a number of leading figures in the shipbuilding and shipowning industries operated. Meetings were once a month and most directors usually attended. Negotiations with suppliers or customers at times involved another member of the board in conjunction with the managing directors, Amos and Wilfrid Ayre. Thus the Chairman, Sir William Robertson was part of a delegation to the steel suppliers, Bolckow Vaughan & Co. Ltd., in 1921, and John Clouston's contacts on Tyneside were valuable in establishing contacts with shipowners.[181] Yet decisions relating to the yard appear to have largely been made by the managing directors. In 1924 the issue of building vessels on 'spec' was discussed and the board 'agreed a policy of

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[178] Ibid. 196.
[179] GD 410/19-21 Henry Balfour & Co. Ltd., Managing Director's Reports, 18.7.1941, 3.10.1941, 29.5.1942.
[180] Ibid., 410/19 and 21.
[181] SRO: GD 313/1/4, 1/5. Burntisland Shipbuilding Co. Ltd., Agenda Books, esp. 6.9.1921, 6.6.1934.

doing so if Managing Directors consider desirable on such lines as they may think best'.[182] Sir Wilfrid Ayre's autobiography, which was based on extensive diaries, made little mention of his colleagues on the board and he wrote of Amos's departure:

> I was now completely on my own resources. I harboured no fears. I was determined to drive onward to further achievements. I would make my own decisions on matters of policy . . .[183]

Even after the company was taken over in 1951, Wilfrid Ayre continued to rule in this autocratic manner. Of the takeover of Alexander Hall & Co. Ltd. in 1953 he wrote:

> I concluded this deal alone. I had had enough experience of so-called experts in earlier projects. God knows what time it would have taken if I had brought professional people into my negotiations.[184]

One factor which contributed to the key role played by general managers and managing directors was their length of service. As in the family companies, they served for long periods and often until death. When the Fife Linoleum and Floorcloth Co. Ltd. was established in 1894, an agreement was signed with William Miller appointing him manager, secretary and cashier for a fixed period of three years. He went on to serve the company and its successor, the Fife Linoleum Co. Ltd., until 1931.[185] Charles Carlow first came to the Fife Coal Co. Ltd. in 1873, aged 24, and served as managing director until his death in 1923.[186] William Moscrip, company secretary when the National Steel Foundry (1914) Ltd. was incorporated, was appointed to the board in 1917 and from 1919 until his death in 1937 was, with one brief interlude, the only director resident in Fife. He was succeeded as managing director by Robert Lockhart Hamilton who served until his death in 1955.[187] The Balgonie Colliery Co. Ltd. was managed by John Allan from at least 1913 until his death in 1928. In turn,

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[182] Ibid., 13.5.1924.
[183] W. Ayre A Shipbuilder's Yesterdays (Aberdour, 1968), p. 129.
[184] Ibid., p. 285.
[185] SRO: BT2/2814/6; BT2/5734.
[186] Muir Fife Coal Co., p. 3-4, 31-3.
[187] RoC: SCO09263/9, 17, 47, 50, 93.

his successor, William Dowie, was managing director until his death in 1954.[188]

In the laird-owned coal companies the relationship between the owners and the manager was probably not dissimilar to that which pertained in those few family firms where the family was not involved in management on a day-to-day basis. Elsewhere, however, the men who managed the companies which were not family firms were or became more independent, taking on some of the aura of family leaders. In some cases, this developed out of a previous role. When Barry, Ostlere and Shepherd Ltd. was created, the articles specified that John Barry, Edward Ostlere and John Shepherd, the managing directors of the amalgamating companies, were to be managing directors for ten years and John Barry was to be 'Chairman, whilst he continues to be a Director and is willing to act'.[189] Barry remained one of Kirkcaldy's leading figures until his death in 1921. Interestingly, when family firms were taken over, the management was sometimes left in place so that the men who had run the factory as an independent family firm, stayed in office under the new board. William Denison Dixon ran the mill where he had formerly been a partner for E.S. & A. Robinson Ltd. until his death in 1922; John Kilgour was the sole Kirkcaldy-based director in Robert Kilgour & Co. Ltd. after the company was taken over in 1951 until the 1970s.[190]

In other cases, one or several subscribers or leading shareholders were designated from the very beginning as the managing director or directors. Thus, when the Kirkcaldy Spinning Co. Ltd. was established, an agreement was signed with one of the subscribers and directors binding him to serve as managing director.[191] In the case of the Burntisland Shipbuilding Co. Ltd., the project was conceived by the Ayre brothers who became joint managing directors.[192] Finally, in yet other cases, men who had made their reputation elsewhere were appointed managing directors. Alexander Spence, described as managing director, was appointed to the board and

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188 SCO09072/2, 30, 66.
189 SCO04357/2.
190 SCO10178/12, SCO28519.
191 SRO: BT2/3812/2.
192 F.M. Walker 'Sir Amos Lowrey Ayre' in Slaven and Checkland, Vol. 1, pp. 206-7; Ayre, pp. 8-13; RoC: SCO10033/15, 33.

acquired 2000 shares in Scott of Kinghorn Ltd. shortly before the death of John Scott in 1907.[193] William Lindsay Burns of Henry Balfour & Co. Ltd. began his career in the Dundee shipbuilding industry.[194]

Significantly, unlike the non-family directors in family firms, the managing directors of publicly-owned companies were able and even encouraged to build up substantial shareholdings in the companies they worked for and to retain these holdings after retirement. Thus, William Moscrip bought 250 ordinary shares when appointed to the board and in 1920 signed an agreement with the company allotting him a further 750 ordinary shares for 'certain services rendered by the secretary to the company'. He continued to acquire shares and by his death was the second largest shareholder with just over 11% of the shares.[195] Charles Carlow held over 16,000 £10 shares in Fife Coal Co. Ltd. by 1910,[196] whilst Sir Wilfrid Ayre was the largest individual shareholder in the Burntisland Shipbuilding Co. Ltd. in 1920.[197]

The acquisition of a stake in the firms they ran - and the bridging of the gap between the ownership and management of industry - symbolised the achievement of men like Carlow and Ayre in joining Scotland's business elite. For them, working as a salaried manager became a route to success, despite their relatively humble backgrounds. Charles Carlow was the son of a colliery manager and the Ayre brothers of a Tyne river pilot, yet Carlow became chairman of the Mineowners Committee after World War One and served on the boards of the North British Railway Co. Ltd. and the Royal Bank of Scotland whilst Amos and Wilfrid Ayre filled a succession of powerful posts in the shipbuilding industry as well as being appointed to numerous government advisory committees.[198] And, just like the founders of family firms, in a pattern identified by Erickson in her study of the steel industry,[199] men such as Carlow went on to found dynasties. Charles Carlow was succeeded as managing director of the Fife Coal Co. Ltd. by

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193 SRO: BT2/4817/22, 24.
194 SRO: GD410/251 (14), Henry Balfour & Co. Ltd. papers.
195 RoC: SCO09263/16, 24, 44.
196 SRO: BT2/2826/41.
197 RoC: SCO10033/26.
198 M. Kirby 'Charles Carlow' in Slaven and Checkland, Vol. 1, pp. 27-8; Walker, pp. 206-7; Ayre, in partic. pp. 126-157, 210-33.
199 Erickson, p. 52

first his son, later his nephew and finally his grand-nephew.[200] Sir Wilfrid Ayre's only child, Kathleen, married into a Kirkcaldy business family;[201] William Lindsay Burns was succeeded as managing director of Henry Balfour & Co. Ltd. by his son, Lindsay Burns.[202] To return to Coleman's phrase, such men had passed from being 'players' to being 'gentlemen'.

4.5.3 The Relationship Between Boards and Shareholders

Since so many of the directors of firms with dispersed ownership had a background within family firms, it is perhaps not surprising that they chose to recreate the managerial structures of family firms in the other companies over which they had control. That they were able to do so was partly because of the nature of the relationship between the boards of these companies and their shareholders, a relationship which had certain similarities to that which existed in family firms. Obviously in a public company, boards did not possess the same legal control over the shareholding as in a private company and their shares were traded on stock exchanges in Scotland and in some cases elsewhere without hindrance. Yet, although in the 1950s and 1960s this was to lead to successful takeover bids in a number of cases,[203] before the Second World War the structure of shareholding prevented the dispersal and even the trade in shares from posing a threat to the power of the board.

As we have seen, shareholding in firms with dispersed shares in the Kirkcaldy area, tended to be either distributed between a number of blocks or dispersed among a large number of individual shareholders. In only one Fife-based company investigated did institutional shareholders hold a significant proportion of the shares.[204] The result was that, just as in family firms, it was impossible for centres of opposition to the board to build up. In those companies where significant blocks of shares existed, the pattern was for all interests to be represented on the board. Of the ten individuals

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[200] Muir Fife Coal Co., p. 117-9
[201] Ayre, p. 148.
[202] RoC: SCO03138/149.
[203] The example of the Burntisland Shipbuilding Co. Ltd. was cited in Ch. 3, section 3.4.1.
[204] The exception was the Fife Linoleum Co. Ltd. in which a number of mostly Edinburgh-based investment trusts held around a third of the shares. It is perhaps significant that most of these trusts were based in the neighbouring Charlotte Sq. office to that of W. Haldane, W.S., a director from 1905 to 1933.

who took up shares in William Young & Co. Ltd. when it was established in 1888, all but one - the distillery manager - were on the board or related to a director.[205] Even in 1910, when the number of shareholders had increased to 40, over 50% of the shares were still held by the board and their relatives.[206] As in family firms, steps appear to have been taken to prevent hostile share blocks forming. When the largest shareholder of the National Steel Foundry (1914) Ltd. resigned in 1924, all his shares were sold and the majority were acquired by other directors.[207]

In those cases where shares were widely distributed, the nature of the shareholders and the very dispersal of the holdings meant that boards had little to fear. As discussed in Chapter Three, many of the shares in companies active in Fife were taken up in small packets by shareholders in Fife and Lothian. Where the Register of Company files give occupations, they reveal that shareholders included many shopkeepers or professional people, such as schoolteachers and ministers of religion, and that many others were women. In the Fife Distillery Co. Ltd. the 87 male shareholders in 1900 (an occupation is given for only one of the 20 female ones) included 36 shopkeepers, 8 manufacturers, 15 professional people and 8 skilled workmen.[208] Of the 83 individual shareholders in the Fife Linoleum Co. Ltd. in 1930, 26 were women. Eighteen of the men (and all the women) gave no occupation, and although those that did included some of Kirkcaldy's leading manufacturers, others were traders and commercial travellers.[209] Sometimes the number of female shareholders was much higher: 111 of the 281 preference shareholders in the Wemyss Coal Co. Ltd. in 1910 were women.[210]

It seems unlikely that many of these shareholders would have possessed the business experience to challenge the board, and the size of their holdings meant that extensive combination would have been required before a threat could have arisen. In any case, shareholders were too poorly informed. It is generally agreed that until the 1948 Company Act

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[205] SRO; BT2/1711/1, 2.
[206] Ibid., 39.
[207] RoC: SCO09263/27, 28, 29.
[208] SRO: BT2/3220/7.
[209] BT2/5734/58.
[210] RoC: SCO02655/52.

increased their rights, the information which shareholders received was scanty and sometimes misleading.[211] The 1913 Annual Report of the Fife Coal Co. Ltd revealed that 'no Report or Balance Sheet has previously been issued' to shareholders.[212] The minute books of the annual general meetings of the Burntisland Shipbuilding Co. Ltd. show that the same small group of shareholders, many of them board members or employees, turned up year after year. Criticisms of the board are not recorded, despite long periods without dividends.[213] Nor did the stock market provide a control. As Hannah has demonstrated, contested takeovers 'were virtually unknown before 1950 . . . even in the few cases in which direct bids were made, the shareholders invariably accepted their directors' recommendation to refuse'.[214] Where, as in Fife, many companies were relatively small and shares were only traded locally, the possibility of disposing of shares was still further reduced and indeed the number of shares changing hands dropped dramatically in many companies as profits fell during the inter-war years. With no demand for their shares, many shareholders in publicly controlled companies, like the employee or family members of a family firm with a controlled trade in shares, were locked into a relationship in which they possessed no power. In terms of the relationship between boards and shareholders, just as in the composition of their boards and their management structures, companies which were not dominated by a single family developed many similarities to family firms.

4.6 Conclusion

The contrast between managerially and family-run businesses has been an extremely fruitful one for business history. Central to this contrast has been

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211 See, for instance, T.A. Lee 'Company Financial Statements. An Essay in Business History' in S. Marriner (ed.) Business and Businessmen. Studies in Economic, Accounting and Business History (Liverpool, 1978), pp. 236-63. The issue of the financial information available to shareholders is discussed extensively in Chapter 6.

212 SRO: BT2/2826/47.

213 See SRO: GD/313/1/1. It should be noted that the annual general meetings of companies today are often very similar. In 1992, evidence was submitted to the Cadbury Committee on Corporate Governance that the average annual general meeting lasted less than 10 minutes. Today, however, institutional investors and the stock market provide some control to the power of boards.

214 L. Hannah The Rise of the Corporate Economy (revd. edition, London, 1983), p. 130; see also his 'Takeover Bids in Britain Before 1950: An Exercise in Business "Pre-History"', Business History, 16, 1974.

the argument that salaried managers take a longer-term view than family businessmen. Thus Chandler writes:

> For salaried managers the continuing existence of their enterprises was essential to their lifetime careers. Their primary goal was to assure the continuing use of and therefore the continuing flow of material to their facilities. They were far more willing than were the owners (the stockholders) to reduce or even forego current dividends in order to maintain the long-term viability of their organizations. . . . If profits were high, they preferred to reinvest them in the enterprise rather than pay them out in dividends. In this way, the desire of the managers to keep the organization fully employed became a continuing force for its further growth.[215]

In considering the alternative pole, however, of entrepreneurial or family run businesses, an apparent contradiction often emerges. The charge is often that they neglected their businesses, in Landes' phrase 'they worked at play and played at work'.[216] This is sometimes linked to the accusation that they sacrificed the future of the firm to short-term profits. Chandler when discussing British family businesses argues that the dividends paid by British and, by implication, family firms were higher than those of American firms and concludes that 'there is a good deal of evidence to support the view that in Britain a large and stable income for the family was more of an incentive than the long-term growth of the firm'.[217]

This argument has not gone unchallenged.[218] It also sits uncomfortably with another feature which is seen as typical of family firms by supporters and critics alike - what the Bolton Committee referred to as 'their underlying motivation . . . the need to attain and preserve independence'.[219] The decaying firms which Boswell interviewed suffered more from too great a personal investment by their owners than from too small a one. There was no 'whiff . . . of the local golf course', but simply a determination to preserve their inheritance.[220]

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[215] Chandler Visible Hand, p. 10

[216] Landes The Unbound Prometheus (Cambridge, 1969) p. 336.

[217] Chandler Scale and Scope, p. 390.

[218] See for instance R. Church 'The Limitations of the Personal Capitalism Paradigm' in Business History Review, 64, 1990, pp. 707-8. The level of dividend payments by firms in the Kirkcaldy area is discussed in Chapter 6.

[219] Report of the Committee on Small Firms (Bolton Committee), 1971-2, Cmd. 4811, p. 23.

[220] Boswell, p. 129, Ch. 8.

Interestingly, Hay and Morris discovered in their interviews with leading personnel in large unquoted and therefore mostly family owned or dominated companies, that these men considered themselves better able to work for long-term growth than managers in public companies:

> Several companies commented that only the management of quoted [authors' emphasis] companies had to concern itself mainly or exclusively with profits and share price . . . Unquoted companies, being free from the danger of being taken over, were regarded as being able to take a longer-term view and to concentrate on building up the size of the company without the need to pursue more immediate profitability increases, provided the latter was adequate.[221]

Hay and Morris go on to conclude that 'this tends to undermine the usual presumption that owner-controlled companies are necessarily less growth-oriented than management-controlled ones'.[222]

Fidler in interviews with chief executives and top directors among the largest companies in both family and publicly owned businesses found both groups arguing that their particular situation gave them greater freedom to pursue long-term rather than short-term goals. Significantly, however, all discussed their over-riding goal in terms of profits: 'there was no sizeable group of businessmen who would admit to the pursuit of growth for its own sake; where growth was mentioned it was conceived in terms of growth of profits'.[223]

The examination of companies in Fife in the first half of the twentieth century presented here has also emphasized the similarities rather than the differences between family-owned and other locally-based firms. Clearly, companies with dispersed ownership were not identical to family firms. Without majority holdings and a controlled trade in shares, differences inevitably existed in the way board members and managing directors were recruited and in the relationship between directors and with their shareholders. Yet, as we have seen, despite these differences, the same

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[221] Hay and Morris, pp. 134-5.
[222] Ibid., p. 135.
[223] Fidler, pp. 143-4. See also 117-122, 127-31.

structures and relationships were replicated. The boards were drawn from the same circles and the same pattern of long service and kinship ties prevailed. Autocratic power was wielded by managing directors, and they came to fill the role of family entrepreneurs even to the extent of starting business dynasties. They too served for long periods and into old age. As in the family firms, the structure of ownership and the absence of a competitive stock market gave the boards of companies with dispersed ownership considerable independence from control. In both groups of companies, the retention of power by boards or groups within boards emerges as a key feature.

The links drawn by Lazonick or Boswell between Britain's relative economic decline, the survival of large numbers of medium-sized and small family-owned firms, and the priority given by family businessmen to firm survival is, therefore, in one sense too simple. In terms of the Kirkcaldy area at least, it ignores the similar survival rates of family-owned and other local companies and the many similarities in the way the two types of company were run. Although the evidence presented in this chapter is primarily about behaviour and not about motivation, there is little to suggest that differences existed between family-owned and other firms. Developments in family and other firms suggest that the retention of control was a goal pursued by all business leaders. If survival was a priority in family firms, it seems probable that it was one in the other locally-owned companies too.

In this context, the adoption of limited liability can be seen as a strategy for survival which gave business owners the opportunity to overcome some of the causes of instability which had been endemic to business in the age of unincorporated partnerships. It increased the chances of firm survival without undermining the control exercised by businessmen; it created the context in which long-term survival became possible. But if limited liability was a necessary condition, it was not a sufficient one. In explaining the pattern of business development in Fife, the tight control exercised by business leaders over their firms is only part of the answer: it is also necessary to look at how they used this power. Understanding both the ability of family and other locally-owned firms to survive the unstable and often harsh economic conditions of the inter-war years, and their lack of

success in the 1950s and 1960s, requires an investigation of the strategies pursued by businessmen. This will be attempted in the following two chapters which will look at the production and financial policies of companies in Fife and how they contributed to survival in the period up until the 1950s, but proved unable to meet the new challenges of the period thereafter.

CHAPTER 5 PRODUCTION: STABILITY AND DIVERSIFICATION

5.1 Introduction

This chapter and the following one will look at the performance of locally-based companies in the Kirkcaldy area in the first half of the twentieth century and will, in particular, explore how they survived the changing and often difficult economic conditions of these years and how and why so many companies ran into problems in the post-war decades. Chapter Six will look at the financial policies of Fife firms, by which is meant the sources of their capital and how they coped with losses or used any profits made. This chapter will look at the productive operations of these companies: what was produced and what methods were used, how this changed over time, what was invested and what profits were made. Production and finance are clearly connected and the causal relationships between them flow in both directions. Above all, the crucial investment decision, which affects future levels of production, is influenced by the availability of capital, and this in turn is related to the profits made from past production, either in terms of accumulated reserves or of the ability to raise capital from outside. Nevertheless, there are strong reasons for treating the two separately and for looking at production first. Firstly, the availability of capital is likely to be only one of the factors influencing the decision to invest and was probably not the crucial one. Although access to capital may act as a constraint on investment, and it was indeed argued in the inter-war years that this was a problem for smaller companies and new ventures in particular,[1] perceived demand was at least as important a factor. Recent work suggests bank lending to industry in the inter-war years was far more extensive than previously thought, whilst Barna claims for the post-war period that 'it appears that firms which wanted to grow and had the ability to make profit, also had the ability or opportunity to raise finance'.[2] For the manufacturer, with experience of only a narrow field of industrial activity, expectations on

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[1] See, for instance, the Report of the Committee on Finance and Industry (Macmillan Committee), 1930-1, Cmd. 3897, pp. 173-4. Access to capital by firms in the Kirkcaldy area during the inter-war years will be explored in Chapter 6, section 6.4.

[2] See S. Tolliday Business, Banking and Politics: British Steel, 1918-1939 (Cambridge/Mass., 1987), D. Ross 'The Clearing Banks and Industry - New Perspectives on the Inter-War Years' in J.J. van Helten and Y. Cassis (eds.) Capitalism in a Mature Economy (Aldershot, 1990); T. Barna Investment and Growth Policies in British Industrial Firms (Cambridge, 1962), p. 20.

the return on investment in that field are at least as likely to have influenced decisions on investment as the availability of capital. Secondly, once capital had been invested, the decision was in a sense irrevocable. If, before the investment was made, the entrepreneur had the option of putting his money elsewhere, once it had been invested in new productive capacity, the alternative disappeared and he was committed to exploiting that capacity to the best of his ability. Thus - and this will be borne out by the evidence presented in this and the following chapters - it is likely that the provision of capital and the creation of profits were seen as, respectively, one condition for and the end result of the central activity of the firm, which was production.

In discussing the production policies of firms, this chapter relies primarily on case-studies. This is partly because the issue is too complex to be treated on a general basis and partly because research was constrained by the availability of company records. Obviously, such a methodology has its limitations: one cannot know how typical the examples chosen are of those firms not studied, particularly since the choice of firms was partly dictated by the evidence available. However, attempts were made to consider a number of firms drawn from as wide a range as possible in terms of size, location and industry, and the emergence of some features in common among the firms studied does suggest that there were wider patterns.[3]

Moreover, the choice of examples has, where possible, been influenced by the questions asked. In exploring the pattern of firm survival and decline identified in Chapter Three, two questions came to assume particular importance. The first of these concerned the ability of firms to survive in difficult economic conditions. Although the two world wars and the period immediately after 1945 raised particular problems, and these will be briefly covered, it was the two decades between the wars which presented the harshest test, and it is on this period that the first half of this chapter will concentrate. The case-studies presented have been chosen for their relevance to the issue of survival in adverse circumstances. It will be recalled from Chapter Three that the evidence from the valuation rolls

[3] Unfortunately the companies investigated do not include a coal-mining firm, since no useful data was found on the production strategies of coal-mining companies active in the Kirkcaldy area.

suggested that a small number of firms continued to prosper during both the inter-war and the war years. The chapters in the company history of Michael Nairn & Co. Ltd. on the inter-war years have relatively little to say on difficulties faced and overcome but speak of rising output, high dividends and constant additions to the productive capacity of the firm.[4] Demand for linoleum was high and rising throughout the period, and national production more than doubled between 1907 and 1924 and again between 1924 and 1937.[5] In the context of a question concerning survival, the experience of Nairns is of limited value. Attention has instead been concentrated on firms which did not possess Nairns' resources in terms of capital, plant or personnel, and on how firms continued to operate, and in some cases even prospered, in industries where demand was not so buoyant.

The second question concerns the decline of so many locally-based firms in the 1950s and 1960s. Here the examples which have been studied are of those firms which should, on the face of it, have had the least trouble adapting to changing demands: the big, the successful, and those which had previously shown an ability to adapt. The three case-studies on which the second half of the chapter focuses are of firms which fit one or more of these categories. In one case, the problems overwhelmed the firm and it eventually closed; the second only just overcame similar problems. The final case-study, Henry Balfour & Co. Ltd., is interesting as a rare example of a firm which did successfully diversify, and here the analysis will concentrate on the reasons for this success.

In the following discussion a number of indicators are used and, although the financial information available on companies is discussed in detail in Chapter Six, it is necessary at this stage to explain three of the financial terms which appear in this chapter.[6] The first of these is 'net additions to fixed assets' which is taken as an indicator of investment.[7] This figure represents the book value of fixed assets purchased in the course of the

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[4] A. Muir Nairns of Kirkcaldy. A Short History of the Company (Cambridge, 1956), pp.124-9.
[5] Final Report of the Third Census of Production,1924, Vol. 4, p. 388; Board of Trade, Report of the Working Party on the Linoleum and Feltbase Industry (1947), pp. 40-1.
[6] For a fuller discussion of accounting procedures, see section 6.2 in Chapter 6.
[7] This indicator is used by H. Peebles Warshipbuilding on the Clyde (Edinburgh, 1987), p.4.

year less any sold or scrapped. Clearly, it is not an ideal indicator. Gross additions would be more useful (although, as is confirmed by the accounts of those companies where gross figures are given, the disposal of fixed assets is unlikely to have had a significant impact on the balance sheets of manufacturing companies) and it ignores investment in stock, which as Barna shows, is of considerable significance.[8] The advantage of net additions to fixed assets is that it is usually given as a separate figure in balance sheets - which are often the only financial information available - or can be easily calculated from them. The figure for stocks held, on the other hand, was often lumped in with work in progress, fluctuated with the state of trade and the company's purchasing policy, and was subject to constant revaluations which were invariably not explained in the balance sheets. Moreover, unlike the total for fixed assets, the figure for annual expenditure is not affected by the wide variety of depreciation systems used.

The second indicator which needs to be explained is profits. Where profits are referred to in this chapter, what is meant is the figure given in balance sheets, where one is given, or in profit or loss accounts, where one is available. As will be explained in Chapter Six, this should not be seen as an exact figure. Boards had considerable leeway in how they presented their results and the figure for profits needs to be seen as influenced by what actually occurred, how boards decided to measure it, and how they chose to present it to whatever audience would see the balance sheet (it is perhaps useful to remember that in the case of private companies the audience may have been extremely limited, so that the distinction between the perception and the presentation of figures may not have been substantial). It should also be noted that no attempt has been made to align the figures to present-day accounting practices, for example, by making them net of depreciation. The figures quoted are those used in the balance sheet and the point at which profits have been struck, frequently before depreciation, is indicated separately for each company. The reasons for this are twofold. Firstly, in many cases, the data to calculate profits as defined today is not available. Secondly, once the element of presentation in profit figures is recognised, then the way figures are presented becomes of interest. For instance, if companies chose to present their profits before

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[8] Barna, pp. 21-5.

depreciation, then it is worth asking why this should be so. This issue is more fully explored in the following chapter, but explains the use of profit figures made in this chapter too.

Thirdly, for a minority of companies, it was possible to calculate profits as a percentage of turnover. Again it is recognised that this is not an ideal way to measure profitability and that a figure which related profits to capital employed would have been helpful. However, the variety of methods used to draw up balance sheets in the period before the Company Act of 1948 means that such a calculation would have been largely meaningless.[9] Relating profits to turnover does also possess the advantage of obtaining percentages which are relatively independent of inflation, which obviously affect time series of profit figures or investment.

5.2 The 1920s and 1930s: Survival in Depression

As indicated, the first half of this chapter looks at the ability of companies to survive in the 1920s and 1930s. A number of case-studies will be used to explore this issue. The first of these, Smith, Anderson & Co. Ltd. is of interest because the range of sources available make it possible to gain a relatively full picture of the production policies pursued in this period. What emerges are the advantages of caution and low levels of investment. A second sub-section will look at a number of different firms to explore how widespread the polices pursued by Smith, Anderson & Co. Ltd. were. The next two sub-sections will again look at case studies, in these cases of firms which were in a certain sense atypical. The firm considered in the third sub-section, Douglas and Grant Ltd., was liquidated in 1926 after mounting losses. What is of interest here is the internal discussion about the policies pursued by the company in the run-up to closure and the insight this provides into contemporary perceptions of production options open to companies. The final example, the Burntisland Shipbuilding Co. Ltd., was, by the standards of an industry in deep trouble, extremely successful in this period, and is a useful case-study of how firms could do well in adverse

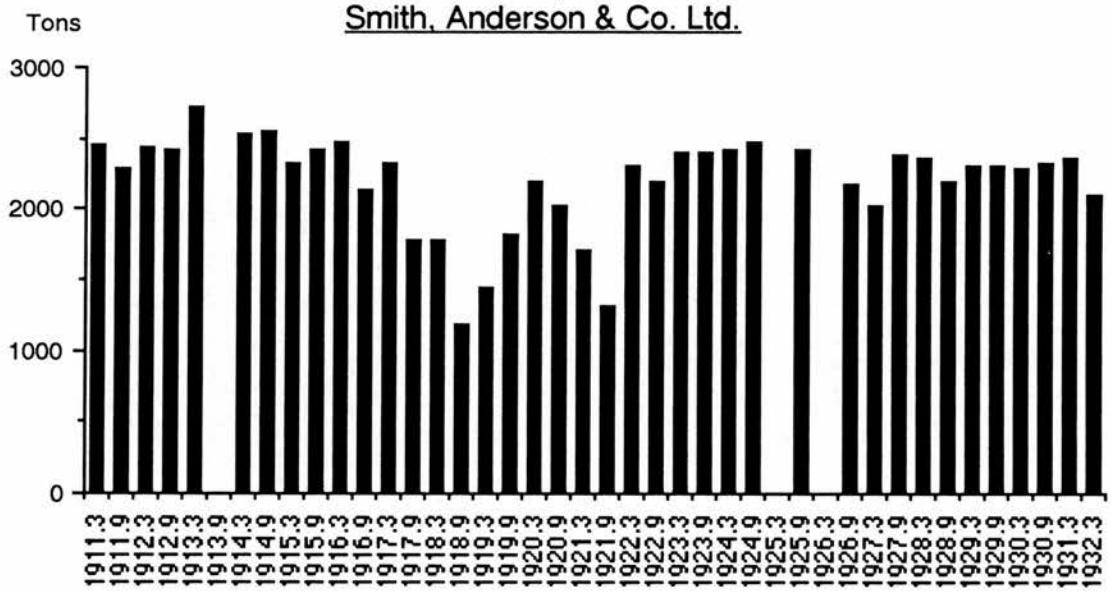
[9] It should also be noted that contemporaries also were precluded from calculating profits in terms of the total capital employed by the methods used to draw up balance sheets. Where attempts were made to calculate a return on investment, this was usually done in terms of the original share capital and took no account of profits retained in the business. See, for instance, ULDA 66/IX/1/1 Boase Spinning co. Ltd., Directors' Minute Book, 11.5.1914.

conditions. The section will finish by looking at the conclusions which can be drawn from the firms discussed.

5.2.1 Smith, Anderson & Co. Ltd.: Opting for the Status-Quo

The minute books of the Annual General Meetings and of board meetings of Smith, Anderson & Co. Ltd., although succinct, give summarized financial results from the company's incorporation in 1909 on as well as some monthly sales figures for the period just before and just after the First World War, whilst two notebooks kept by two successive managing directors, Charles and William Verden Anderson, give production figures and costs for a period in the late nineteenth century and for one between 1909 and 1932. The following paragraphs are based on these sources.

Figure 5.1: Paper Production
Smith, Anderson & Co. Ltd.



Note: Tonnage of paper produced by Smith, Anderson & Co. Ltd. per half year to end March and end September.
Source: Notebook of W.V. Anderson.

Figure 5.1 shows the tonnage of paper produced by the company's one mill at Fettykil, near Leslie for a period from 1911 until 1932. W.V. Anderson's notebook gives data for half-years ending 31st March and 30th September. As can be seen, there is no marked difference between the summer and winter half-years, but there is considerable change over time. Production was high in the pre-war years, peaking in the half-year to 31.3.1913 (figures for the following half-year are unfortunately missing). It was then

maintained at a high level into 1916, before falling in the last years of the war. The period from 1917 to 1922 shows dramatic fluctuations in production with troughs in 1918 and 1921 divided by a peak in the winter of 1919/20. These fluctuations correspond to the experience of the paper industry as a whole, but the first trough was presumably also linked to a strike at the mills in March and April 1918, and the second was attributed by W.V. Anderson to the coal strike.[10] From 1922 on, production rose once again to remain at a steady if gently declining level. The highest post-war production (although there are again gaps) was achieved in the half-year to 30.9.1924 but was below the peak of 1913; by the winter of 1931, production was at 87% of the maximum recorded.

A case before the Valuation Appeals Court in 1920 concerning Fettykil gives some details on the productive capacity of the mills. The assessor estimated the weekly output at 120 tons a week, whilst the managing director, William Verden Anderson, who was intent on lowering the valuation of the mill by emphasizing that his buildings were 'narrow and unsuitable' and his plant 'old', argued that 'we make something about 90 [tons per week]'.[11] This figure was exceeded in 16 of the half-years for which information is recorded, although the level suggested by the assessor was never remotely maintained for 6 months. A compromise figure of 100 tons a week might be accurate, and this is confirmed by repeated statements in the directors' minute book in 1909-14 when that level was approached, that 'the mills were running full-time'.[12] If 100 tons/week is taken as the productive capacity of the mills, the mill was operating at over 90% capacity for all but two 6 months periods for which records exist up to 1916, but at less than 90% for most of the period after 1925.

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[10] For industry trends, see L. Weatherill One Hundred Years of Papermaking. An Illustrated History of the Guard Bridge Paper Company Ltd, 1873-1973 (Guardbridge, 1974) p. 71; Smith Anderson & Co. Ltd. Directors' Minute Book 27.5.1918; notebook of W.V. Anderson. The records of Smith, Anderson & Co. Ltd. are in the possession of the company.

[11] Court Record, Valuation Appeals Court, Cupar, 24.9.1920 Case of the Joint Appeals of Smith, Anderson & Co. Ltd. and Reginald Ramsden Purdom, Assessor for the County of Fife, pp. 68, 12-14.

[12] Smith, Anderson & Co. Ltd., Directors' Minute Book, 9.5.1910. also 31.10.1909, 13.3.1911, 6.11.1911, 11.5.1914.

This level of production was markedly higher than in the previous period for which figures exist which covered the years from 1872 to 1890.[13] Although production rose steadily throughout this earlier period, it only stood at 2621 tons per year in 1890, about half the level of 1911. The increase in production between these two dates was related to improvements in the mill. According to a journal article on the history of the company, 'the mill expanded so rapidly in the 80's and 90's last century, that the factory had to be built out over the river, and on to the other bank'.[14] A new water scheme was completed in 1894, including one turbine to produce electricity, and a new machine producing machine-glazed paper was installed in 1899 which 'was one of the largest machines of its type in the country'.[15] A large factory to manufacture paper bags was built in the 1890s following a decision to concentrate on this rather than on stationery. The result of these improvements was an increase of 41% in the valuation for rating of the mills between 1886/7 and 1902/3.[16]

This level of investment was not maintained in the early twentieth century. Two second-hand rag boilers were installed between 1902 and 1905 and a new generating set was installed in 1910/1.[17] No further investments are recorded until the purchase of a new bag-making machine in 1933 and a new generator in 1938 opened another round of expansion.[18] W.V. Anderson informed the Assessor's Court: 'before the war I had under consideration the entire reconstruction of the buildings and the installation of new plant', but nothing had come of this: in 1920 the company had the same three paper machines as in 1900.[19] The absence of new investment in the inter-war years was not due to lack of capital. A balance sheet for the year to 30th September 1920 - one of the few available - shows that the company held £88,498 in cash and government stock and a further £67,490 in 'stocks and shares per managing director's valuation', out of total assets of £242,560.[20] Some of this was presumably held to meet

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[13] Notebook of C. Anderson.
[14] The Paper Maker and British Trade Journal, July 1960, p. 46.
[15] Ibid.
[16] Court Record, Smith, Anderson Appeal, p. 58.
[17] Ibid., p.16; The Paper Maker, p. 46; Smith, Anderson & Co. Ltd. Directors' Minute Book 21.11.1910.
[18] Ibid., Directors' Minute Book 15.5.1933; AGM Minute Book 14.11.1938.
[19] Court Record, Smith, Anderson Appeal, pp. 12, 68.
[20] Smith, Anderson & Co. Ltd., AGM Minute Book, 1.12.1920.

Excess Profits Duty, but the company still held War Stock worth £85,000 in 1931.[21] If it was not a shortage of capital which held back expansion, a link can perhaps be made between the pattern of investment and generational changes in management. New investment coincided with fresh blood: W.V. Anderson came to the mill in the 1890s during the period of expansion and remained in control until his retiral in 1932.[22] The new generator was proposed by his successor, who died prematurely in 1939, while Eric Verden Anderson, William's son, led the company during the expansion of the war and post-war years.[23]

Table 5.1: Profits, Smith, Anderson & Co. Ltd., 1909-1960

Year (to 30.9)	Profit for year	Balance profit & loss account	Year (to 30.9)	Profit for year	Balance profit & loss account
1909	6253		1935	12346	20942
1910	5894	6316	1936	13161	14485
1911	9141	9288	1937	21621	27356
1912	6896	7184	1938	20573	30429
1913	5864	6049	1939	11143	21572
1914	6945	6994	1940	13762	22834
1915	7379	9372	1941	8167	23251
1916	15001	16789	1942	6029	17780
1917	29856	33145	1943	3100	20880
1918	81250	109395	1944	9549	18929
1919	-1187	75707	1945	9874	21803
1920	78341	69029	1946	7860	17663
1921	-15525	-13996	1947	20215	30378
1922	2945	15774	1948	18934	31312
1923	8208	13982	1949	-16251	-3459
1924	11651	16333	1950	14733	11274
1925	12958	14941	1951	105509	106783
1926	14781	19072	1952	-10469	10815
1927	13504	19376	1953	131	10945
1928	24220	27896	1954	26984	33804
1929	16614	26310	1955	27088	52642
1930	12686	18296	1956	9147	22763
1931	11075	13771	1957	17342	32774
1932	11696	12467	1958	18575	33672
1933	10597	13064	1959	35417	59889
1934	12407	17345	1960	35552	49386

Notes: Profits after depreciation and tax (except on ordinary dividends to 1948), but before transfers to reserves, dividends and directors fees. All figures in £.
Source: Smith, Anderson & Co. Ltd. AGM and Directors' Minute Books.
NB. Unless otherwise indicated, blank spaces on this and the following tables indicate figures are not available.

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[21] RoC: SCO07002/42.
[22] Smith, Anderson & Co. Ltd. Directors' Minute Book 26.11.1941; AGM Minute Book 21.11.1932.
[23] Ibid., 11.11.1935; Directors' Minute Book 17.7.1939, 27.11.1939.

Table 5.2: Profitability, Smith, Anderson & Co. Ltd., 1911-1932

Year (to 30.9)	Costs	Profit	Turnover	Sales	Months	Profitability
1911	60084	9141	69225	65502	4	13.20
1912	64231	6896	71127	73674	2	9.70
1913		5864		77172	2	
1914	64827	6945	71772	70452	2	9.68
1915	66913	7379	74292	73016	3	9.93
1916	101608	15001	116355	129300	2	12.89
1917	122162	29856	152018	144724	3	19.64
1918	126728	81250	207978	181764	2	39.07
1919	114247	-1187	113060	194178	2	-1.05
1920	165298	78341	243639	262656	2	32.15
1921	146307	-15525	130782	179010	2	-11.87
1922	104060	2945	107005	97092	2	2.75
1923	105824	8208	114032	110808	3	7.20
1924	107446	11651	114097	118254	2	10.21
1925		12958				
1926		14781				
1927	98937	13504	112441			12.01
1928	99939	24220	124159			19.51
1929	94637	16614	111251			14.93
1930	92868	12686	105554			12.02
1931	88670	11075	99745			11.10
1932		11696				

Notes: Costs - total costs of paper production as calculated by W.V. Anderson; profits - see table 5.1; turnover - costs plus profits; sales - calculated up from monthly sales figures for number of months in column 'months'; profitability - profit as percentage of turnover. All figures except months and profitability in £.
Sources: Smith, Anderson & Co. Ltd., AGM and Directors' Minute Books; notebook of W.V. Anderson.

If the company's plant was ageing in the 1920s - the managing director of the paper machine manufacturers Jas. Bertrams & Co. Ltd. described it as 'inferior' and 'out of date entirely' in 1920[24] - the company was far from unprofitable. Tables 5.1 and 5.2 give financial information on the company as extracted or calculated from data in the minute books. Table 5.1 gives annual profits from incorporation in 1909 until 1960, whilst table 5.2 shows the profitability of the company by comparing profits to turnover. Since it is unclear if Excess Profits Duty have been subtracted before or after declaring profits in the years 1916 to 1919, it is possible that profits were substantially higher in those years, although the high inflation of the war years should also be borne in mind. However, table 5.1 does show that with the exception of 1921 and possibly 1919 a profit was made in every year until 1949 and that profits were higher in the inter-war years than

[24] Court Record, Smith, Anderson Appeal, p. 33.

before 1914. 'Turnover' in table 5.2 has been calculated by adding the costs of production, which were calculated by W.V. Anderson for every six months period, to the profit for the year. This, of course, ignores any costs which were not included in the original calculation for production costs, but W.V. Anderson includes a figure for the cost of turning paper into bags, for interest payments when a charge on the mill was being paid off, and for fixed costs including depreciation and repairs, and so the residual costs were probably relatively small and stable over time. Until 1924, the directors' minute book also gives sales figures for the month preceding each meeting, and the table also includes a figure for sales calculated from these which is close to the turnover figure, except for the war years when monthly sales may have fluctuated wildly. Although results can only be calculated for a small number of years, these show that in 'normal' peace time years (ie excluding the 1915 to 1924 period) the company profits represented around 10% of turnover and were, if anything, higher in the 1927-32 period when annual production was on average 4552 tons than in 1911-14, when it was 10% higher (4974 tons). Although, since no production figures exist, profits as a percentage of turnover cannot be calculated for the period after 1931, the level of profits in the 1930s make it unlikely that the rate declined.

The breakdown of costs made by W.V. Anderson show that it cost the company 71.3% more to make a ton of paper in 1923 than in 1913, although prices were only 58.9% higher according to the Board of Trade's Wholesale Price Index, and even in 1933, when prices were virtually back to their 1913 level, production costs were still 29.4% over those of 1913.[25] The distribution of costs remained largely stable: although the prices of materials and coal varied greatly from six-monthly period to six-monthly period, together they accounted for 52.35% of costs in the period between April 1905 and September 1914 and 49.94% of costs in the period between April 1923 and March 1933. Only wages were a substantially higher proportion of costs (on average 11.9% in the earlier period and 19.5% in the latter one), but this was largely compensated for by a drop in selling costs ('Discounts, Allowances, Commission') from 6.5% to 1.4% between the pre and post-war eras. There is little sign therefore, that increased

[25] Smith, Anderson & Co. Ltd. papers; B.R. Mitchell British Historical Statistics (Cambridge, 1988), p. 729.

profits were achieved by the more efficient use of material or labour. Furthermore, there is no clear correlation between costs per ton and tonnage produced: with materials and fuel forming such a major part of the costs, the major influence on cost per ton were fluctuations in their prices. For instance, a £3 drop in the cost per ton of paper between summer 1926 and summer 1927 (when total production rose) was entirely due to a halving in the price of coal - both material and wage costs were marginally higher.

One final feature of production at Fettykil should be noted: the wide range of paper goods produced. A monthly sales list from 1902 lists sales of 41 different types of bags and paper, in some cases for as little as £5 a month and never for more than £500. W.V. Anderson's notes also make clear that different and specific qualities of paper were produced for different wholesalers.[26] Although much of this information is frustratingly undated, it appears that sales methods changed only slowly. The historian of Tullis, Russell & Co. Ltd., Ketelbey, recounts that the introduction during the inter-war years of branded paper grades by this company - which produced far higher qualities of paper - met with considerable resistance from wholesalers and other paper producers.[27] Smith, Anderson only opened a London sales office in 1960.[28] It seems probable therefore that well into the inter-war years, if not later, sales depended on customer-specific goods and a wide range of products.

Emerging from this discussion of Smith, Anderson are a number of significant features. Firstly, there is the long-term stability in the quantity of paper produced, despite the fluctuations of the war and immediate post-war years. This production plateau was related to the low level of investment in productive capacity in the period for which production figures exist; when investment did come, it came in rounds which were apparently related to management changes and family developments as well as to demand. In the inter-war years at least, the availability of capital does not appear to have been a constraint. It is clear that these rounds of investment did significantly enhance the level of production at the mills, but there is no

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[26] Notebook of W.V. Anderson.
[27] C.D.M. Ketelbey Tullis Russell (Markinch, 1967), pp.223-6.
[28] Smith, Anderson & Co. Ltd. Directors Minute Book 8.11.1960.

evidence of increases in production or of reduced unit costs (in real terms) between them.

The willingness of the directors and shareholders to accept static levels of output and no improvement in the real costs of production is perhaps explained by the relationship between the figures for production, for costs and for profits. It is clear that the mill was profitable at the level of production achieved in the immediate pre-war years and especially in the 1920s, even though the mill was probably not operating at full capacity in the latter period. Nor was there any clear increase in profitability when production was higher: if profits were higher when production was high, it was simply because more tonnage was produced (and this ignores the consequences of the presumably greater wear and tear on machinery). In this situation, the company faced a choice between maintaining production and profits at the existing level or taking the risk of increasing production by a new round of investment, which not only required further investment, but also finding and retaining new markets - and the fact that the mills were apparently not running at capacity suggests the latter may not have appeared easy. The slump of 1920/1 and the sluggish recovery thereafter may have destroyed any confidence in the long-term outlook which such risks required. W.V. Anderson suggested that he had been considering expansion in 1914, and a board minute in the autumn of 1920 suggests that it was again discussed,[29] but the slump of 1920/1 followed and no action was taken. The company preferred to sit on its considerable reserves until they were used in 1931 to cancel the preference shares.[30] Clearly, the board of Smith, Anderson & Co. Ltd. saw no gain in investment in the 1920s and early 1930s.

5.2.2 Growth and Stability: Some Other Companies

The advantages of caution and the risks associated with new investment can be further illustrated by comparing the experience of two other Fife paper companies. Weatherill in her history of the Guard Bridge Paper Co. Ltd., based at Guardbridge near St. Andrews, emphasizes that the company was not well run in the years before the First World War and the

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[29] Ibid., 1.12.1920.
[30] RoC: SCO07002/38.

inter-war period. Little new investment was made and production stagnated. Yet the company only once made a loss in the whole period between 1900 and 1940 and that in the universally catastrophic year of 1921. As Weatherill points out, this was because the mills, like Fettykil, were profitable at well below capacity production.[31] Tullis Russell & Co. Ltd., at Markinch, on the other hand, developed in this period into one of the best mills in Scotland and was recognised as such by its competitors.[32] After a long period with low investment, considerable sums were spent on productive machinery between the late 1880s and the 1920s, with new machines installed in 1898, 1908 and 1927 - rounds of investment which Ketelbey links to changes in leadership.[33] Yet the company made losses in at least four years between incorporation in 1906 and the mid 1920s and passed its ordinary dividend in 11 years between 1906/7 and 1925/6.[34] Very often this was clearly due to the scale of investment: in 1908/9 for instance, £12,000 was spent on improvements but no dividend was paid.[35] War and depression, moreover, meant that the rewards of investment were very much delayed: new machinery raised production in the years before the First World War - but the figure for 1914 was only equalled again under peace-time conditions in 1925, and it was not until the late 1940s that the company reaped the benefits of its investment in the inter-war years.[36]

If we turn from paper to a linoleum company, the same pattern of rounds of investment punctuated by production plateaux appears. The Fife Linoleum Co. Ltd., very much the smallest of the three Kirkcaldy linoleum companies, was originally founded in 1894, but was dissolved and reincorporated in 1904. According to the prospectus of the new company, the old one had been undercapitalised and the new share issue was designed to raise £12,500 above the price of the works to pay for new printing machinery which would replace the expensive and slow hand printing.[37] A debenture issue was made in 1907 to raise further funds to expand the works which

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[31] Weatherill, pp.72-6, 87-91.
[32] Court Record, Smith, Anderson Appeal, p. 14.
[33] Ketelbey, pp. 163, 170-3, 186-7, 216-7, 228.
[34] Ibid., pp. 187, 193, 203, 228.
[35] Ibid., p. 187.
[36] Ibid., pp. 228-9, 270.
[37] SRO: BT2/5734/8 Prospectus.

were 'taxed to the utmost': it was claimed that higher production would reduce costs.[38]

Table 5.3: Profits, Fife Linoleum Co. Ltd. 1905-1933

Year (to 31.5)	Additions in year	Turnover	Profit	Profitability
1905			3219	
1906			3023	
1907				
1908	6318		226	
1909	7838		1736	
1910	1254			
1911	416		2538	
1912				
1913	38	97166	4238	4.36
1914	200	99417	5383	5.41
1915	0	92482	2882	3.12
1916	15	117295	9429	8.04
1917	0	132865	11362	8.55
1918	410	160135	19557	12.21
1919	1105		23052	
1920	1290		37049	
1921	4844	240035	17311	7.21
1922	2891		23763	
1923	1779	198624	34107	17.17
1924	8732	197942	38049	19.22
1925	10133	194395	25953	13.35
1926	4579	191979	14964	7.79
1927	1917	181434	7834	4.32
1928		199326	17227	8.64
1929		186612	13409	7.19
1930		189079	468	0.25
1931		152311	-9551	-6.27
1932			-5880	
1933			-6241	

Notes: Additions in year - net additions to buildings as in annual balance sheet; turnover - sales and stock at year end, minus stock at beginning of year; profits - profits on trading after depreciation but before transfers to reserves, tax and directors' fees.; profitability - profits as percentage of turnover. All figures except profitability in £.
Source: SRO: BT2/5735 Fife Linoleum Co. Ltd., annual reports and balance sheets.

The annual balance sheets of the company from 1908 on give figures for net additions to buildings (but unfortunately, not for machinery), for turnover (sales and stock at year end, minus stock at the start of the year) and for

[38] Ibid.,18 Prospectus for Debenture Issue.

profits, and these have been tabulated in table 5.3. They show that profits were low during the period of investment. By 1914, however, the board declared that 'the dimensions the Company has now attained and the reputation its goods have established . . . [mean] that the business is now on a profitable basis and will continue so'.[39] The profits of this round of investment were reaped after the war as the company achieved a level of production which permitted profits of over 10% of turnover. In 1924, however, the directors transferred a large sum to reserves 'in view of the future development of the company's business' and in particular to pay for new buildings and plant.[40] Over the next few years considerable sums were spent.[41] The timing of this investment, however, was unfortunate, and as demand fell in 1930 and 1931, the company found that not only did sales drop but the increased stocks required for higher production had to be written down.[42] Losses mounted and in 1933, when Michael Nairn & Co. Ltd. offered the company £75,000 for its assets, the directors and shareholders were happy to accept.[43]

Examples such as these highlight the risks which new investment could represent and go some way to explain the caution displayed by so many manufacturers in the inter-war years. As Campbell and others have stressed, the ups and downs of the business cycle were part of the experience of businessmen in early twentieth- century Scotland and the slump of 1920/1 was a clear reminder of the risks of over-exposure.[44] It also helps explain the preference for buying second-hand machinery or existing factories. Expansion for the Boase Spinning Co. Ltd. was chiefly by this means, even though the company in the pre-war period was an extremely profitable enterprise. In 1897, the company had looked at the Abbotshall Mills in Kirkcaldy but decided that the price of £6750 was 'much above the value of the place' in view of the poor quality of the spindles.[45] In 1903, however, they acquired the Lebanon factory in Cupar for £3000 and, in 1904, the Riverbank mill in Leven, beside their existing works, for

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[39] Ibid., 26.
[40] Ibid., 49.
[41] Ibid., 55.
[42] Ibid., 59.
[43] Ibid., 68.
[44] R.H. Campbell, The Rise and Fall of Scottish Industry, 1707-1939 (Edinburgh, 1980), p. 165.
[45] ULDA 66/IX/1/1 Boase Spinning Co. Ltd., Directors' Minute Book 25.10.97.

£3500.[46] In 1908, an English firm was acquired and the machinery transferred to Cupar, only to be transferred to Kirkcaldy when they acquired the premises of Thomas M'Laren & Sons in the 1920s.[47] As explained in Chapter Three, into the inter-war years the mills and factories of firms which closed in the Kirkcaldy area were usually acquired by other companies and this long remained the usual route for new entries into business.

Although three of the five paper mills in the Leven valley closed or changed hands in the 1920s, most of the companies which have been looked at so far were in industries where demand was sustained and profits continued to be made in most of the inter-war period. The ability to survive at below capacity production and to be flexible in what was produced, the need to keep costs low and to show great caution in investment, were obviously far greater in industries where the market for their goods was less favourable. Of these, the most significant industry in terms of the number of companies involved in the Kirkcaldy area was clearly linen. The industry was in difficulties on the eve of the First World War, and the situation deteriorated thereafter. Unfortunately, few records were found for Kirkcaldy linen firms, and the overwhelming preponderance of unincorporated partnerships and private companies meant that no financial records were registered with the Register of Companies.

Table 5.4: Spindles and Looms in the Kirkcaldy Linen Industry, 1914-1927

a) Numbers of spindles (spinning cos.) and looms (weaving cos.)

Spinning companies	1914	1918	1919	1927	Tons/wk 1914	Tons/wk 1918
Boase Spinning Co.	6666	6812	6655	1153	41	44
John Fergus & Co.	8356	7380	6834	590	37.5	40.5
J.& W. Hendry	4650	3400	4000	closed	60	45
N. & N. Lockhart	4958	4538	4200	500	14.5	13.25
Jas. Normand & Son	1550	1515	1372	closed	7.3	7.5
Totals Scotland	153418	139428	115514		789.5	730

[46] Ibid., 19.1.1903, 25.4.1904
[47] Ibid., 24.2.1908, 8.5.1908, 7.5.1909; RoC: SCO11107/36.

Weaving companies	1914	1918	1919
A. Blyth & Co.	300	250	250
Boase Spinning Co.	295	304	293
Peter Greig & Co.	160	125	105
R. Heggie & Sons	83	49	70
Ireland & Wishart	200	200	n.a.
John Jeffrey & Co.	200	113	94
G. & J. Johnston	146	108	90
W. Lumsden	471	373	322
Thos McLaren	307	298	260
R. Wemyss & Co.	320	160	127
A. Westwater & Co.	120	70	60
Robert Stocks & Co.	316	247	250
N. Lockhart & Sons	130	107	85
Jas Normand & Sons	n.a.	n.a.	224
Totals Scotland	15165		10261

b) Production

Weaving Cos	Flax/hemp '14	Unions '14	Cotton '14	Flax/hemp '18	Unions '18	Cotton '18
A. Blyth & Co.	26375	34537		16035	20767	9000
Boase Spinning Co.	64740			67970		
Peter Greig & Co.	17470	2010	180	13770	2850	650
R. Heggie & Sons	10288	1607		4457	1018	1452
Ireland & Wishart	5800	9957	5468	532	4056	16078
John Jeffrey & Co.	40000	2500		12500	1300	4500
G. & J. Johnston	No output figures 1914			7400	7000	
W. Lumsden	42286	9961	1255	11268	20022	5636
Thos McLaren	10000	24000	6000	5000	23000	12000
R. Wemyss & Co.	15000	15000	15000		2000	35000
A. Westwater & Co.	12600			5768	1440	2150
Robert Stocks & Co.	37086	11396		13286	1440	2150
N. Lockhart & Sons	11700	4300	550	12600	2800	
Jas Normand & Sons						
Totals Scotland	1857511	353238	67722	1162269	311417	n. a.

Notes: Number of spindles and looms operated by companies with factories in the Kirkcaldy area by year. Also figures for production per week - spinning companies, tons of yarn and twine manufactured from flax, hemp and tow; weaving companies, square yards of different materials (unions are mixture flax and other materials).
NB. The Boase Spinning Co. and W. Lumsden also owned factories outwith the Kirkcaldy area and the figures include this capacity .
Source: ULDA 66/IX/4/4 Boase Spinning Co. (1920) Ltd. papers.

Some figures on the overall capacity and production of the industry have been preserved in the papers of the Boase Spinning Co. Ltd. and these have been set out in table 5.4. The figures in table 5.5, which are taken from the 1924 Census of Production and the 1937 Report on the Linen Industry in Scotland, show that the decline in production had set in before

1914 and was only reversed in the late 1930s. Although, unfortunately, the census gives no regional figures and the medium grades made in the Kirkcaldy area were the least depressed,[48] there can be no doubt that the industry had to cope with a massive reduction in demand and was forced to reduce capacity.

Table 5.5: Production of Flax and Linen in Great Britain 1924-1934

	1907	1912	1924
Flax yarns (tons)	23540	16560	8780
Linen piece goods (mill. sq. yds.)			
Plain	98.9	92.7	16.5
Checked, printed etc.	9.1	17.2	4.7
Sailcloth and canvas	23.4	27.3	16.8

Piece goods sold in sq. yds. (1924=100)

	1924	1930	1934
Sailcloth	100	89.4	91.9
Other	100	76.1	53.3
Flax yarn in cwts.	100	91.4	100.4

Source: Final Report of the Third Census of Production of the United Kingdom (1924), Vol 1., pp. 152,4. Scottish Economic Committee Report on the Linen Industry in Scotland (1937), p. 170.

Yet most of Kirkcaldy's linen firms survived these years. Of the 5 flax-spinning firms listed for 1914, 3 were still in operation in 1940, as were 9 of the 14 weaving firms. One reason for this was the shift in materials woven evident from the figures on the production of the weaving firms at the beginning and the end of the war. Flexibility in production was not new. Accounts of the industry before the First World War suggest that part of the resilience of the Kirkcaldy industry, in comparison with that of Dunfermline, was due to the wide range of goods produced, including both fine and especially medium and heavy weights.[49] Price lists which have survived from this period confirm this picture, quoting figures for a wide range of

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[48] Scottish Economic Committee Report on the Linen Industry in Scotland (1937), p. 156; Livingstone, p. 24; Lockhart, p. 13.

[49] W.H.K. Turner 'The Textile Industries of Dunfermline and Kirkcaldy, 1700-1900' The Scottish Geographical Magazine, 73, 1957, pp. 132-3, 142-4.

products.[50] During the First World War, as table 5.4b shows, there appears to have been a shift away from flax and hemp to the production of union (ie. incorporating more than one fibre) and of cotton goods. This allowed many of the linen firms to make some compensation for the dramatic decline in the production of linen goods, and many seem to have continued to use other fibres.[51]

Capital expenditure was also reduced. In 1937, the Report on the Linen Industry in Scotland reported that:

> Since the War, textile machinery has been so radically improved that part of the equipment of many factories has been rendered obsolete, and it is only in certain cases that the necessary improvements have been carried out . . . The capital outlay which is involved in re-equipping a factory with modern machinery is often so great in relation to the probable return as to be prohibitive. Some factories have purchased no new machinery for many years past. Others have been able to provide for replacements by purchasing second-hand machinery from firms that have gone out of business. It is only a few firms, more favourably circumstanced, that have been able to undertake extensive re-equipment.[52]

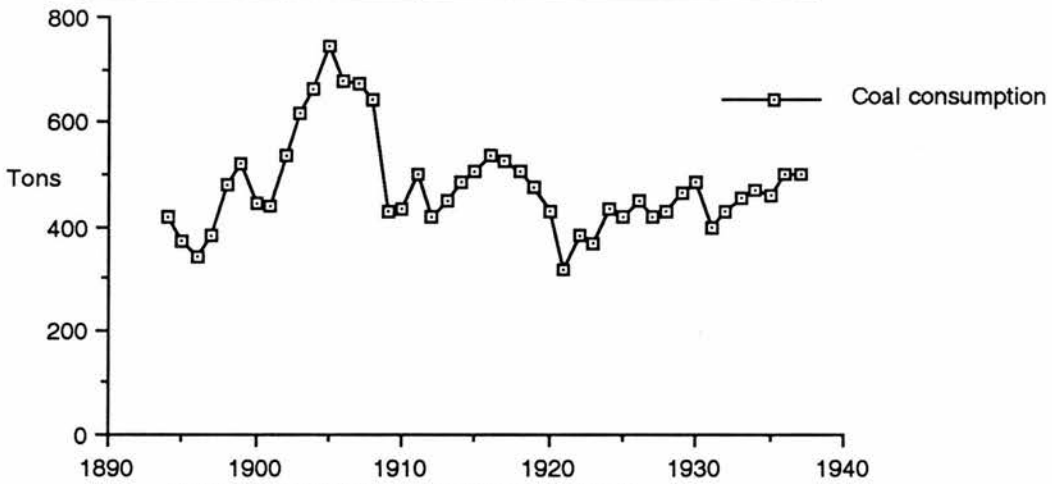
A ledger belonging to one of the smaller linen-weaving companies, N. Lockhart & Sons, gives some further insight into how companies survived. The ledger covers the period from 1891 to 1937 and records expenditure other than raw materials and labour. The entries for expenditure on machinery and fittings and for buildings show peaks in the first decade of the twentieth century, which correspond to the extension of the factory in 1900-02 and the installation of new boilers and engines in 1907-8. This was one of the last boom periods of the linen industry, but also the point where power passed from one generation of the Lockhart family to the next.[53] Thereafter expenditure was low, with no expenditure on buildings

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[50] Eg. Robert Wemyss & Co. Price list 1903 (in the possession of Kirkcaldy Library).
[51] Livingstone suggests that one-quarter of the town's textile output was non-linen in 1938. P.K. Livingstone Flax and Linen in Fife Through the Centuries (Kirkcaldy, 1952), p. 24.
[52] Report on the Linen Industry, p. 163.
[53] H. Walker Dunfermline Linen. The Story of Erskine Beveridge and St. Leonard's Works 1833-1989 (Dunfermline, 1991) pp.17-9; C. Whatley Onwards from Osnaburgs. The Rise and Progress of a Scottish Textile Company, Don & Low of Forfar 1792-1992 (Edinburgh, 1992), pp. 135-7; N. Lockhart & Sons. 150 Years of Progress and Development, 1797-1947 (Edinburgh, no date).

recorded for the period between 1912 and 1927 and under £100 per annum on machinery for 9 years between those dates.[54] The company history records no major investments until after World War Two.[55] Figure 5.2 gives the annual consumption of coal for the period 1891-1937. Coal remained the only major fuel consumed by the company throughout the period. Calculations made elsewhere by the firm's senior partner, R.C. Lockhart, suggest that the dramatic drop in 1908-9 was due to the installation of the new engine.[56] Otherwise the figure suggests that any sustained increase in production between the first half of the 1900s and the mid 1930s can only have been achieved through more efficient use of fuel - unlikely in the absence of any capital investment.

Figure 5.2: Coal consumption at N. Lockhart & Sons



Note: Consumption of coal in tons per year.
Source: Kirkcaldy Museum 60/10. N. Lockhart & Sons

Another example of a company which survived despite long periods of poor profitability is the Leven feed-stuff manufacturers, John Balfour & Co. Ltd. The company was incorporated in 1913, when its fixed assets were valued by an independent assessor at £7319 for land and buildings and £3237 for machinery.[57] Table 5.6 is based on the balance sheets as filed with the

[54] Kirkcaldy Museum 66/10, N. Lockhart & Sons, Factory Expenses, pp.81-94, 96-102; see also N. Lockhart & Sons.
[55] N. Lockhart & Sons.
[56] Kirkcaldy Museum 67/2 N. Lockhart & Sons, ledger.
[57] SRO: BT2/8913/8.

annual return to the Register of Companies and provides an outline of the development of the company until its liquidation in 1955. Figures for trading profits are rarely given before the 1940s and there is no indication of turnover, but the total assets of the company and the balance of the profit and loss account suggest that regular if small losses were made in the pre-war years. Dividends on the cumulative preference shares were irregular, with none at all being paid between 1927 and 1943, and the company was still over ten years in arrears on liquidation; it therefore seems probable that no ordinary dividend was ever paid, except perhaps during World War One.[58] As can be seen from the final two columns, investment in the buildings of the plant was low with only £7434 of new expenditure in the entire period until 1939. Although the information available is limited, the evidence suggests that the company was kept going by avoiding risks and strict austerity.

[58] Ibid., 50, 71, 83, 84, 87.

Table 5.6: Profits, John Balfour & Co. Ltd., 1914-1954

Year (to 30.6)	Total assets	Trading profit	Balance Profit and loss Account	Additions to Buildings	Additions to machinery
1914	14522		-173	0	101
1915	16250		299	0	331
1916	16735		804	230	488
1917	17519		1361	0	0
1918	17424		1234	0	63
1919	19102		1753	43	0
1920	20675		2354	117	1199
1921	17810	-2408	-404	0	242
1922	17588		489	0	288
1923	17268		197	18	74
1924	17022	162	-22	106	0
1925	17571		-167	52	2
1926	18956		-309	25	579
1927	21744		362	1	645
1928	19000		-719	0	30
1929	16023		-943	7	0
1930	17948	-423	-1457	0	0
1931	15982		-1395	0	0
1932	17809		-1084	0	0
1933	19216		-1286	437	63
1934	17838		-1952	183	404
1935	18628		-1566	103	130
1936	19640		-1227	14	142
1937	21837		-821	203	344
1938	23071		-1310	116	520
1939	22556		-2138	23	112
1940	21853		-970	10	95
1941	18489	1061	31	245	97
1942	21476	568	539	0	430
1943	22492	414	686	520	1472
1944	23334	401	571	157	223
1945	23334	1060	1116	0	-60
1946	26750	1365	1966	263	2471
1947	28201		912	256	1692
1948	35620	337	920	98	
1949	43549	910	1002	479	3327
1950	43252	1208	1082	7	569
1951	45089	1816	1168	615	528
1952	37542	749	1200	33	370
1953	38695	150	1034	112	53
1954	36919	-4735	-3803	520	5

Notes: Total assets, trading profit, balance of profit and loss account, and additions to buildings and to machinery as in annual balance sheets (additions are net). Profit after depreciation and interest on bank overdraft, but before trnsfers to reserves, dividends and directors' fees. All figures in £.
Source: SRO/BT2/8912 John Balfour & Co. Ltd., annual balance sheets.

5.2.3 Douglas and Grant Ltd.: Mass Production vs. Flexibility

The preceding examples point to the potential risks of investment and the merits of caution. How issues of investment and specialization were seen by contemporaries in one firm, is brought out in an interesting exchange of papers which has been preserved in the records of Douglas and Grant Ltd. engineers. It will be recalled from the last chapter that this company was in severe financial trouble by the 1920s due to inherited debts owed to the estate of the former senior partner and to poor trading in 1919/20. In early 1925 - just over a year before the company was liquidated - two reports on the future policy of the company were drawn up by senior members of staff.

The first report, by C.W. Hardie, Assistant Engineer, provides considerable detail on the wide range of goods produced by the company, which included a variety of rice mills, engines for driving mills and other machinery, various pieces of naval equipment, colliery and linoleum machinery and water pumping equipment. The company also undertook general repair work.[59] Although reluctant to abandon some of these lines, Hardie advocated concentrating on the rice-milling equipment: 'Our rice mill work pays well and could be made to pay better if our market was larger. We could then make the machines in larger batches, with more specialised labour, and so cheapen our cost of production and enable us to knock out our competitors'. By contrast 'we cannot make special orders pay at the price obtainable, when we are in competition with firms which are specialising in making the machinery. The day of the General Engineering Works is past and people requiring new machinery are now going further afield in order to find the expert makers'.[60]

The second report, by Ninian Menzies, the company secretary, was still more radical. After reviewing the company's activities and the losses some of them had incurred, Menzies came down in favour of a drastic specialization. He suggested that the company's 'eastern agencies' (the sales offices in South and East Asia) should be closed down and the

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[59] ULDA 45/3/2 (67) Douglas & Grant Papers. J.W. Hardie 'Notes with Reference to the Future Policy of the Company'.
[60] Ibid.

Dunnikier works in Kirkcaldy should concentrate on 'the manufacture of Rice Mill Machinery by mass production [his emphasis] . . . The aim will be to make Rice Mill Machinery so cheaply that it will sell itself and even our competitors will be glad to buy from us, and of such simple and well tried design as to be easy to erect and almost fool-proof'.[61] In favour of this policy he advanced classic arguments for mass production:

> If we produced [rice mills] in large numbers and concentrated on their manufacture, we could reduce the prices so much that the demand would exceed our output . . . by concentrating on one line of manufacture, by organising the Works so that the machine parts would pass easily and quickly through, by careful and continuous experiment, we should be able to produce the best machinery of its type at the cheapest price.[62]

The reply by L.C. Grant, one of the managing directors, is no less interesting. Although Grant claimed to be favourable towards the two reports, he proceeded to throw into question many of their judgements. He pointed out that depending entirely on rice-milling machinery would require securing a larger share of the market despite formidable foreign and especially German opposition; that the type of mill in demand in different countries varied; and that since buyers in the East expected mills to be erected and stores to be supplied, the company could not abandon these aspects of production as recommended by Menzies and Hardie.[63] Grant started from the premise that 'the choice of a wide enough production to keep the Works at Kirkcaldy going full, is a very difficult one. It is a foregone conclusion that unless the shops are kept full, they cannot be profit-earning'.[64] He was sceptical about the size of the market for rice-milling machinery 'I have in the meantime very serious doubts as to whether even if we secured a large share of the orders in all these districts, we should be able to keep our existing shops going entirely upon that class of work'.[65] He pointed out that much of the plant the company owned was not suitable and 'the directors must bear in mind that for mass production a certain

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[61] Ibid., (37). N. Menzies 'Some Notes on D. & G.'s Manufacturing and Selling Policy and Some Suggestions for the Future'. p. 4.
[62] Ibid., p. 10.
[63] 45/3/2 (68). L.C. Grant 'Memorandum for the Assistance of the Board p.2, 4, 8, 9.
[64] Ibid. p. 1.
[65] Ibid., p. 6.

number of specialised tools may be required'.[66] Ultimately he concluded that although there was scope to standardize the production of rice-milling machinery, the product would have to remain differentiated and the production of engines, general repair work and Admiralty work should not be abandoned.[67]

Table 5.7: Profits, Douglas & Grant Ltd. 1911-1926

Year (to 30.4)	Turnover	Profits Kirkcaldy	Profits Eastern Agencies	Total profits	Additions Kirkcaldy
1911					3494
1912	99190				1670
1913	120714				1723
1914					2275
1915		5169	3001		2833
1916		4091	7		1127
1917		9771	6466		3381
1918		1556	5680	7236	6378
1919	239445	7632	14389	22022	15262
1920		27625	-4703	22783	9102
1921		32583	-49045	-16462	13932
1922		35291	-35336	-45	485
1923		224	-16375	-16151	1054
1924		-12189	-11512	-23701	306
1925	168303	11434	-18673	-7240	5477
1926		-12336	-15839	-28174	52

Notes: Turnover - sales and work in progress at year end minus work in progress at beginning of year; profits attributed to Kirkcaldy and Eastern Agencies respectively, after depreciation, interest on bank overdraft and loans and directors' fees, but before tax and dividends; additions - gross additions to buildings and machinery as in annual balance sheets. All figures in £.
Source: ULDA: 45/2/1, 45/3/2 (48), (63). Douglas and Grant Ltd., annual balance sheets and papers.

The emphasis Grant placed on maintaining a wide range of products was based on experience. In a letter to the solicitor who acted for the trustees, written in 1921, Grant had highlighted the difference between the profits generated by the works in Kirkcaldy and the marketing activities of the Eastern Agencies, and had argued that 'as soon as the Company concentrated on purely engineering business, its resources became less severely taxed'.[68] An earlier report by an outside consultant pointed out that the company had been reasonably profitable until 1910, about the time

[66] Ibid., p. 8.
[67] Ibid., pp. 9-10.
[68] I45/3/2 (48).

the first offices were opened in the East.[69] As table 5.7 shows, the contrast between the results obtained in the East and in Kirkcaldy had become accentuated in the years since 1921. Although the comparison cannot be taken too far, the agencies in Saigon, Rangoon and elsewhere were primarily sales offices engaged almost solely in the sale of rice-milling machinery and spare parts. The works in Kirkcaldy, on the other hand, undertook a very wide range of work. For instance, another memo in 1925 shows that the Dunnikier works were engaged at that time in producing engines for a paper mill at Balerno, a contract for the Admiralty and various pieces of equipment for linen and linoleum companies in Kirkcaldy.[70]

The remark by L.C. Grant, quoted above, that the works needed to be kept fully occupied to be profitable is also significant. As can be seen from the final column table 5.7, considerable sums were invested in the Kirkcaldy works between 1917 and 1921. Grant thought this justified in view of the 'backward state of the plant at the beginning of the period' and argued that the effects could be seen in the rising profits shown by Dunnikier.[71] Yet the consequence of this round of investment was also to commit the company to maintaining a high level of production. As the report by the outside consultant emphasizes: 'it is elementary to say that no engineering business can have a satisfactory outcome in any year without a large turnover, because establishment and other charges cannot be cut down';[72] the heavier the investment, the larger the overheads. In the case of Douglas and Grant Ltd., the key decision was probably to invest during the war years rather than use the profits to clear the burden of debt. The result was that the firm continued to be burdened with a bank overdraft and debts to the Trustees of Lewis Grant, senior, even when orders fell. The decision committed the company to pursuing contracts wherever they could be found and maintaining a wide range of products. By investing heavily in the engineering works at the end of the war, the company limited its room for manoeuvre later.

Finally, it is worth noting the subsequent experience of L.C. Grant, who, after the collapse of Douglas & Grant, established a small unincorporated

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[69] Ibid 3/2 (63) Report by Alex Mackay, C.A. (written 1916), pp.2-3.
[70] Ibid. 3/2 (45).
[71] Ibid. 3/2 (48).
[72] Ibid. 3/2 (63) p.3.

engineering business in Dysart. According to the ledgers of this company, only £4991 was spent on buildings, machinery and tools in the initial period up to 1929 and expenditure in the next decade remained low: no further expenditure on buildings is recorded until 1941 and only £658 on machinery and tools.[73] This low capital investment permitted the company to survive poor years. The order book lists 206 orders for 1930 and 197 for 1931, but of these only two are for over £1000 and most are under £50. Furthermore, flexibility was crucial: although the company continued to produce rice-milling machinery, many contracts were for a wide range of small engineering jobs, including repair work for local linen companies. Only in the 1950s was the company able to concentrate on the production of rice-milling machinery, and only then did the proportion of local repair jobs fall.[74]

5.2.4 The Burntisland Shipbuilding Co. Ltd.: Success in Adversity

The final case-study from the 1920s and 1930s looks at a company which did well in an industry which came to symbolise the problems of British industry in the inter-war years. In an article on the inter-war Scottish shipbuilding industry, Buxton singles out the Burntisland Shipbuilding Co Ltd. as 'having a record of efficiency in organization and production which was unrivalled by any other Scottish shipyard', despite competing in the most competitive section of the trade, the construction of cargo vessels.[75] Established in 1918, at a time when the industry was just about to enter a long period of crisis, the company launched just under 284,000 gross registered tons of shipping between 1919 and 1938, enough to have placed it among the middle ranks of the Clyde yards.[76] Particularly striking was its success in the 1930s: between 1931 and 1934, when many yards

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[73] ULDA 45/2/17 Douglas & Grant Papers. L.C. Grant ledger 1927-50, pp. 109-51.
[74] L.C. Grant & Co., Order Books, Vols. 2 to 20. The books are in the possession of the company.
[75] N. Buxton 'The Scottish Shipbuilding Industry Between the Wars: A Comparative Study' Business History, 10, 1968, pp. 106-7.
[76] For a description of the Clyde shipbuilding industry between the wars, including figures on production, see A. Slaven 'Management and Shipbuilding, 1890-1938: Structure and Strategy in the Shipbuilding Firm on the Clyde', in A. Slaven and D. Aldcroft (eds) Business, Banking and Urban History. Essays in Honour of S.G. Checkland (Edinburgh, 1982); A. Slaven 'A Shipyard in Depression: John Browns of Clydebank 1919-1938' Business History, 19, 1977; Campbell, pp. 134-46.

were lying empty, it launched 17 ships and in the 36 months from July 1935, it averaged one launch per month, a record according to the managing director, Wilfrid Ayre, for 'any cargo shipbuilding yard in normal conditions'.[77]

The reputation the yard developed had much to do with production methods and research. From the beginning methods were sought to increase the speed and reduce the costs of ship production by standardization. Thus the prospectus of the company in 1918 stated that the 'object of the company being to manufacture rather than build ships, it is intended to standardise the various parts of the structure of the ships so as to get as much repetition as possible'. As much of the construction work as possible was to be carried out by steel manufacturers, thus reducing the need for specialized plant and skilled labour.[78] According to an article in The Shipbuilder in 1920:

> As to the methods of working adopted at Burntisland, the company are following the general principle of standardising parts . . . Widths of shell plating and riveting are being standardised . . . Every opportunity is taken to simplify the structural work, while preserving the shipshape form and complying with the essential conditions attached to seaworthiness. It will be obvious how rapidly construction can proceed when it is possible to prepare 90 per cent of the plates before the vessel is framed.[79]

The choice of Burntisland, 'remote from congested shipbuilding centres', as the site of the yard appears to have been a deliberate move to break with traditional and entrenched methods and problems.[80] Wilfrid Ayre, and his brother Amos (who were joint managing directors until Amos's resignation in 1936), were interested both in new methods of production and in technical research and the culmination of this interest was the 'Burntisland Economy Ship' which reduced production costs by incorporating standardized features and reduced operating costs through 'the attainment of greater propulsive efficiency and the provision of effective structural

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[77] W. Ayre A Shipbuilder's Yesterdays (Aberdour, 1968), p. 132.
[78] RoC: 10033/10.
[79] GD313/16/1 The Burntisland Shipbuilding Co. Ltd. papers. Article from The Shipbuilder, Dec. 1920. Reprinted as pamphlet by the company.
[80] Ayre, p. 9.

strength against frequent liability to damage'.[81] The reduction in fuel consumption was based on considerable research work on ship displacement and fuel consumption resulting in a new sternpost, patented in 1928 as the 'Ayre Pro-Propellor Sternpost'; by 1929, they were guaranteeing economies of 35% over the accepted norms for coal consumption.[82] The Economy Ship was followed by further standardized vessels such as the 'Baltic' Type Steamer.[83] The commitment to research was also maintained. In the early 1930s, Wilfrid became interested in diesel propulsion and secured an order for a small diesel vessel to permit experimentation; again this initial work paid off when further orders were secured.[84]

There can be no doubt that this commitment to streamlining production and to the construction of efficient ships contributed to the success of the yard. Ten ships were launched in 1919-20, and this high production rate when the yard was still under construction enabled the company to build up reserves which saw it through leaner years. Later, in the early 1930s, during what was a particularly poor period for the industry generally, Burntisland continued to win orders and in December 1934 had an order book of 29,600 gross tons - John Brown & Co. received orders for only two merchant ships in the 1930-4 period.[85] Wilfrid Ayre was convinced his success was due to the yard's efficiency: 'judged by the steady volume of orders and consistent records of production and financial results, our methods had proved that we were the lowest cost producers of merchant ships in the United Kingdom'.[86]

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[81] GD313/16/3 Publicity leaflet 'The Burntisland Economy Coaster'. See also F.M Walker 'Sir Amos Lowrey Ayre' in A. Slaven and S. Checkland (eds.) Dictionary of Scottish Business Bibliography 1860-1960 (Aberdeen, 1986), Vol 1, pp. 206-7.
[82] Ayre, pp. 75-7.
[83] GD313/16/4 Publicity leaflet 'The Burntisland "Baltic" Type Steamer'.
[84] Ayre, pp. 91-3.
[85] A. Slaven 'John Browns', p. 201
[86] Ayre, 138.

Table 5.8: Tonnage Built by the Burntisland Shipbuilding Co. Ltd., 1919-1939

Year	Tonnage gross	Tonnage dwt	No. Ships	Average tonnage (gross)	No. ships econmy	Profit figures available
1919	10800		2	5400.00		
1920	18343		6	3057.17		
1921	6924		2	3462.00		
1922	12361		4	3090.25		
1923	7173		6	1195.50		2
1924	15814		8	1976.75		2
1925	3699		3	1233.00		3
1926	5575		3	1858.34		
1927	8859		5	1771.80	1	
1928	21388	40500	6	3564.67	3	
1929	27330	46950	9	3036.67	6	6
1930	18741	34025	7	2677.29	3	5
1931	4635		2	2317.50	1	2
1932	9048	15370	5	1809.60	2	1
1933	5957	8990	5	1191.40	1	3
1934	5404	8355	5	1080.80		
1935	19861		8	2482.63	1	1
1936	26711		13	2054.71		2
1937	26345		11	2395.00		1
1938	29003		10	2900.30		2
1939	16419		7	2345.57		
Total	283971		127	2236.00	18	29

Notes: Total tonnage (gross and deadweight) and number of ships receiving builders' certificates per year; average gross tonnage for ships built per year; number of ships built which were of 'economy' types per year; and number of ships per year for which building costs and sale price available.
Sources: SRO: GD313/1/4-7, 3/4-119, 10/1-2. BurntislandShipbuilding Co. Ltd. Directors' Agenda Books, Ship Production Costs, Ships 104-224 and Builders' Certificates Ships102-253.

Yet it would be wrong to suggest that the yard entirely escaped the bleak years faced by the rest of the industry. Table 5.8 uses the builders certificates of ships built between 1919 and 1939 to illustrate trends in production over this period. Ships have been classified according to the date the certificate was granted, in most cases a few weeks after launch. The certificates give gross registered tonnage; later deadweight was to be used increasingly, and where this could be calculated from other sources it has been indicated for comparative purposes. As can be seen from the table, after a good start, the yard, like most others, lived through a long

period of low orders in the 1920s, and it was only in the mid 1930s that production at Burntisland really began to take off. Table 5.9 gives the 'profit on operations' and balance available for distribution per year as extracted from the annual balance sheets and shows that between 1922 and 1927 and again between 1932 and 1935 profits were low or non-existent. No dividends were paid in 9 years between 1919 and 1939. Month after month, the directors were informed that enquiries were 'very few at present' or 'almost non-existent' and year after year, the annual reports, like those of other shipbuilders, complained of poor trading conditions and of empty order books.[87]

Table 5.9: Profits, Burntisland Shipbuilding Co. Ltd., 1919-1939

Year (31.3.)	Trading profit	Bal available for distrib.	Buildings	Plant & Machinery
1919	19941	19941	60588	*
1920	57414	76003	20632	45658
1921	66346	89975	1493	33829
1922	2853	12049	0	1076
1923	7681			
1924	8341	12713	94	3492
1925	4351	8885	-323	128
1926	-6876	-581	0	-273
1927	-1827	-1092	0	12
1928	12685	12750	50	721
1929	15573	22835	0	98
1930	48361	60201	755	608
1931	10269	20096	201	10586
1932	-18598	-2669	0	962
1933	-1209	-1910	0	156
1934	-7847	1701	0	-190
1935	-1959	1585	0	677
1936	19123	23043	0	187
1937	41888	46086	400	240
1938	58317	69951	369	189
1939	64109	86022	2250	11196

Notes: Trading profit - profit on operations before depreciation, tax and other financial charges; balance available for distribution - total profits and balance brought forward before depreciation, transfers to/from reserves, tax, dividends and directors' fees; buildings and plant & machinery - net additions as per annual balance sheets. All figures in £.
* The figure under buildings in 1919 also includes plant and machinery.
Sources: RoC: SCO10033 Burntisland Shipbuilding Co. Ltd., annual balance sheets; SRO: GD313/1/1 [AGM] Minute Book of the Burntisland Shipbuilding Co. Ltd.

[87] GD313/1/4-7 The Burntisland Shipbuilding Co. Ltd. Agenda Books; for the annual reports see GD313/1/1.

During this period, as for so many other manufacturers, survival was in part due to tight control of expenditure. Whilst in May 1920, the board agreed plans to spend a further £5000 on the yard, only a year later the managing directors cancelled an order for a second crane.[88] During the next two years, a reduction in the steel order placed with Bolckow Vaughan & Co. Ltd. was requested, and it was decided to delay consideration plans for a dry dock.[89] Figures in table 5.9 on net expenditure on buildings and plant and machinery have been compiled from the annual balance sheets and correspond to the brief details in the directors' agenda book and Wilfrid Ayre's diary. They show that with the exception of 1930 investment in fixed assets remained low until 1939. Expenditure on machinery was kept down by buying second-hand where possible. The closure of many shipyards offered frequent opportunities: in April 1932 it was recorded that a hydraulic drill and other equipment had been acquired in a sale at 1/10th of their value.[90] Expenditure on staff was also rapidly scaled down: a staff wages book, which unfortunately only covers the period until the end of 1921, shows numbers climb from 3 in March 1918 and 34 in September of that year to 81 in September 1920, only to fall back to 54 a year later as the slump hit orders.[91]

Moreover, the impact of Burntisland's pioneering methods on production should not be exaggerated. The early methods of ship assembly were abandoned as the yard built up its own equipment and as differences between the working methods of shipbuilders and structural engineers caused problems.[92] The term 'economy ship' was used rather indiscriminately, but, as can be seen in table 5.8, the specifications of at most 17 of the 44 ships produced between 1927 and 1934 inclusive fit one of the types so described, and only in 1928-30 did they represent a majority of the tonnage built. Nor did motor ships make a significant contribution at Burntisland before the war: only seven such ships were launched. More significant appears to have been the company's willingness to build a wide range of ships. During the inter-war years, Burntisland completed contracts

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88 Ibid., 1/4 Agenda Book 4.5.1920, 3.5.1921.
89 Ibid., 6.9.1921, 7.2.1922.
90 Ibid., 1/5, Agenda Book 5.4.1932
91 Ibid., 3/1/2. The Burntisland Shipbuilding Co. Ltd. Staff Wages Book No. 1.
92 Ayre, 18-9, 38-9.

for over fifty different owners to a bewildering variety of specifications. One key factor was its ability to build small ships: as can be seen in table 5.8, the average size of ships fluctuated with the tonnage built and in the crucial years from 1932 up to and including 1934, when the yard's performance was markedly better than the industry's average, six of the fifteen ships launched had gross registered tonnages under 1000 tons and only one passed 3000. Finally, when all else failed, the yard turned to ship repairs and even stripping old vessels.[93]

Table 5.10: Profits on Contracts, Burntisland Shipbuilding Co. Ltd., 1919-1939

Profit margin on contracts	Profit less than 10%	10-15%	15-20%	20-30%	Over 30%	Total	Total in categry
Gross Tonnage							
0-1000	1	1	1	1	4	8	22
1000-2000	0	3	3	1	0	7	44
2000-3000	1	2	2	2	1	8	26
3000-4000	0	0	0	1	0	1	9
over 4000	0	1	1	3	0	5	26
Total	2	7	7	8	5	29	127
'Economy' ships	0	3	2	3	0	8	18

Notes: Ships built 1919-39 classified by gross tonnage and by profit margin (excluding overheads) as percentage of building costs. Figures are for 29 ships for which building costs and contract prices are available (out of 127 ships built). For distribution per year of these 29 ships, see table 5.8. Similar figures for ships which were of 'economy' types.
Sources: see table 5.8.

The evidence on profits per contract also does not indicate so much the contribution of a certain class of ship, as the company's ability to generate profits on a wide variety of contracts. Costing sheets, giving the construction costs of each ship and the price of power machinery (Burntisland did not construct ships engines) have survived for most of the ships launched in the inter-war years, and these can be compared with the contract prices where these are listed in the agenda book. Profits can thus be calculated for 29 of the 127 ships launched between the wars (the distribution over time is indicated on table 5.8). It should be noted that contract prices were not necessarily the final price paid, but this was unlikely to be lower than that agreed when the contract was signed.

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[93] GD313/1/4 Agenda Book 4.7.1922; 1/5 3.10.1933; Ayre, p. 88.

Results have been set out in table 5.10 - the Burntisland Shipbuilding Co. Ltd. made a clear loss on none of the ships for which details exist, which was a better record than the four Clyde yards investigated by Campbell.[94] Even if a contribution of 15% towards overhead costs is added, most would have made a profit for the company. Yet there is no clear pattern as to where the highest profits were earned, except perhaps that the highest profits (up to 90%) were earned on small ships. Of the eight 'economy' ships for which prices can be calculated, profits before overheads ranged from 10.9% to 23.3%. Nor do the figures for breakdown of costs on the 'economy ships' indicate any significant savings on either material or labour over time.

The success of the Burntisland Shipbuilding Co. Ltd. was, therefore, due not only to research and standardized production methods but also to very traditional virtues such as an ability to cut costs and flexibility in production. Indeed, the very number of innovations is significant. As Wilfrid Ayre himself was well aware, any technical advance was likely to be studied and matched by other manufacturers. Ultimately, he prided himself on his ability to adapt his designs to the wishes of shipowners at competitive prices and to undertake novel and demanding orders.[95] As is clear from the data on ship costing, the success of the yard was due to its overall efficiency. Ayre were able to put in bids low enough to win orders for a wide variety of ships, confident in the knowledge that the yard could still make a profit at the prices obtained.

5.2.5 The Advantages of Caution and Flexibility

Although the case of each company presented here has its distinctive characteristics, certain common features do emerge. Central to these is the role of investment. For many of the companies studied, capital investment in new productive capacity was irregular and infrequent. The evidence suggests that this condemned them to static or near-static production levels, but it also meant they were not locked into producing at capacity or

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[94] Ibid., 3/4-119 Costing records of ships 104 to 224 for costs. GD313/1/4-7 Agenda Book for prices. For a discussion both of how contracts were made up and the level of profits achieved, see R.H. Campbell 'Costs and Contracts: Lessons from Clyde Shipbuilding Between the Wars' in Slaven and Aldcroft, pp. 54-79.
[95] Ayre, pp. 78-79, 88-9, 129.

achieving regular profits. Similarly, an ability to take on a wide range of orders was important, and companies fared best when they avoided committing themselves to a narrow product range through investment in dedicated machinery. Clearly, such policies were not universal. Research on individual companies suggests that considerable investment was made by some firms in the inter-war years, even in industries which faced problems as severe as did steel and shipbuilding.[96] In the Kirkcaldy area, firms such as Michael Nairn & Co. Ltd. and the Fife Coal Co. Ltd. maintained their leading positions in linoleum and coal due to continued investment in the latest technology.[97] However, cautious investment strategies and a reluctance to commit the firm to the mass production of a narrow range of products were by no means confined to Fife.[98]

The cautious investment policies identified might justly be described as short-term or conservative, since they did not rely on long-term forecasts or imply any confidence in future demand. This aspect of business decision-making in the inter-war years has been the subject of criticism. Weatherill, for instance, criticizes the Guard Bridge Paper Co. Ltd. for the lack of any long-term planning in the inter-war years, whilst Slaven condemns the conservatism of management in Clyde shipbuilding: 'the tenacity of the mechanistic firm and its survival in spite of damaging weaknesses in management strategy is little short of astonishing'.[99] More often, however, this caution has been defended with the argument that in the uncertain economic conditions of the inter-war years, short-term policies were rational. Campbell, in particular, has argued against using hindsight to criticize business leaders. Writing about the North British Locomotive Co. Ltd., he defends the short-term 'wait and see' policy of its directors in the slump of 1921/2: 'In these circumstances the most reasonable policy to follow was that of trying to obtain orders of any form which were available.

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[96] See, for instance, P. Payne Colville's and the Scottish Steel Industry (Oxford, 1979), pp. 216-222; J. Boswell Business Polices in the Making (London, 1983), Chs. 6 and 7; Slaven 'John Browns', pp. 210-213.

[97] Muir, pp. 124-9; A. Muir, The Fife Coal Co. Ltd. (Leven, 1954), pp. 38-41, 51-56, 69-76; B. Supple The History of the British Coal Industry, Vol. 4 1913-1946: The Political Economy of Decline (Oxford, 1987), pp. 206, 311.

[98] N. Buxton 'Efficiency and Organization in Scotland's Iron and Steel Industry during the Interwar Period', Economic History Review, 29, 1976, pp. 114-9; W. Lewchuk 'The Motor Vehicle Industry' in B. Elbaum and W. Lazonick (eds.) The Decline of the British Economy (Oxford, 1987), pp. 142-9.

[99] Weatherill, pp.88-90; Slaven, 'Management', p. 51

To later commentators that may seem to be clutching at straws, but not to those whose livelihood had been removed apparently by political decisions . . . So long as some orders were available there was always a reason to continue in traditional paths'.[100] Payne too has emphasized the context of decisions and quotes Richardson to the effect that if innovations 'do not yield reductions in unit costs, then it would be irrational for a businessman to introduce them'.[101]

Yet the emphasis on rationality has its limitations. Coleman and MacLeod have argued 'one essential element in business decision-making is a willingness to take risks on the new rather than staying safely with the old. "Rationality" in this sense may keep businessmen in business but it also means they will never take a chance on moving ahead of their competitors'.[102] Moreover, as Dintenfass has shown by comparing the performance of different coal companies in the inter-war years, there were significant differences in performance between companies in the same industry. The failure of the majority to follow best practice 'constitute[s] a case for entrepreneurial failure in the inter-war British coal industry'.[103] In Fife too, the example of companies such the Burntisland Shipbuilding Co. Ltd. or the long-term growth of Tullis, Russell & Co. Ltd. show that investment and risk-taking could pay and that success could be achieved in the most unfavourable circumstances.

In understanding the decisions made by businessmen, it is perhaps useful to see them as choosing between two options when considering investment and expansion. This emphasizes both the significance of their perception of the situation and that both change and the status-quo involved benefits and perils. In considering the case for change, one factor was clearly the uncertainty of demand. In annual reports and other assessments of the economic outlook, this clearly emerges as a major concern of Fife businessmen. But it was not the only threat. What also stands out is an

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[100] Campbell, Rise and Fall, p. 167.

[101] P. Payne 'Entrepreneurship and British Economic Decline' in B. Collins and K. Robbins (eds.) British Culture and Economic Decline (London, 1990), p.28.

[102] D. Coleman and C. MacLeod 'Attitudes to New Techniques: British Businessmen, 1800-1950' Economic History Review, 39, 1986, p. 598.

[103] M. Dintenfass 'Entrepreneurial Failure Reconsidered: The Case of the Interwar British Coal Industry' Business History Review, 62, 1988, p. 33.

acute sense of vulnerability. The report of the Tariff Commission on the linen industry before the First World War found manufacturers who were universally gloomy about the impact of overseas tariffs and foreign competition, and such fears were revived in the post-war years. British manufacturers were also seen as labouring under an unfair disadvantage due to government action to improve factory conditions or raise wages.[104] Obviously, the context of these comments suggests some element of special pleading. The Tariff Commission was unlikely to hear about the benefits of free trade, nor shareholders about how easy trading conditions had been in the outgoing year. Yet the long supply lines and the distant markets of so many Fife producers did make them vulnerable to disruption. The linen industry used flax from the Baltic and Russia to manufacture goods for sale in American, continental and colonial markets. Both supply and demand were vulnerable and both were disrupted after the First World War. If this was an extreme example, it was not unique. Scottish paper producers used Scandinavian woodpulp and North African esparto grass; linoleum needed linseed oil from South America, cork from Portugal, jute from Bengal and resin from New Zealand. East Fife coal met fierce German and Polish competition after the First World War in its chief markets.[105]

A further if less obvious constraint was that most Fife producers were single or dominant product companies. Channon defines the two categories as having 95% and 70% respectively of their sales within one product area.[106] Although sales figures permitting such precise categorization are not available, there can be little doubt that virtually all Fife manufacturers in this period fitted into one of the two categories. Many of the linen companies indeed confined their production to one stage of manufacture. Only two were both spinners and weavers, and there were also a number of specialized bleachers and dyers. Whatley shows how the success of Don Bros, Buist & Co. Ltd. was partly based on their ability to compensate for poor years in spinning through their weaving department and for losses in

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[104] For the linen industry, see Report of the Tariff Commission, (1904-5), paras. 3610-3636, 4048-4063; also ULDA 66/IX/4/4 Boase Spinning Co. Ltd. papers for a collection of documents on the efforts of Scottish flax-spinners and linen manufacturers to win protection in the inter-war years, and on complaints about the absence of a Trade Board in Northern Ireland.

[105] Muir Fife Coal Co., pp.37-8, 47-8.

[106] D. Channon The Strategy and Structure of British Enterprise (London, 1973), p. 12.

linen by placing greater emphasis on jute.[107] This route was not open to less diversified manufacturers, and although, as has been seen, the variety of goods produced was important to the survival of linen firms, flexibility remained within a narrow product range. In their returns to the Register of Companies, many directors continued to describe themselves throughout the inter-war years as, for instance, 'flaxspinner' or 'paper manufacturer'. The description accurately reflected the importance attached to technical knowledge and experience of the trade.[108] But it also meant that businessmen and the firms they ran remained tied to the shifting fortunes of the industry in which they worked.

Uncertainty of demand, vulnerability to unexpected and uncontrollable outside forces and the limited range within which manufacturers could manoeuvre, all affected the assessment of the risks involved in change. Yet the other side of the equation - the risk involved in the status-quo - is no less important. Here what is significant is that the risk was not necessarily high. As we have seen from the examples of Smith, Anderson & Co. Ltd. or John Balfour & Co. Ltd., regular profits might be made, or, at a minimum, losses contained. In these circumstances, the choice to invest or not might appear as one between the uncertain possibility of greater profits in the future or the probability of survival. Campbell makes the same point when he writes of the balance of forces between push and pull factors in encouraging change:

> The desire to remain operational may seem short-sighted to the historian, but a move from that approach is likely to have been brought about through the influence of two groups of forces. On the one hand is the gift of far-sighted perspectives of the future, which may be possessed rarely by entrepreneurs. On the other, much more commonly, are factors which force the entrepreneur into alternative action. Even if the pull of the former is recognised, the absence of any push from the latter is likely to inhibit expansion into the uncertainty of new enterprises.[109]

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[107] Whatley, pp. 119-23, 137-8,163-9.
[108] A clear distinction was often made between men with a technical or a business background. For instance, L.C. Grant of the engineering firm of Douglas & Grant Ltd. emphasizes in a letter that two of his co-directors are not engineers and are therefore not equipped to run the Kirkcaldy works. On another occasion, one of the two points out that there is no a point in sending an engineer to the East when what is required is a man of 'business experience'. ULDA GD45/3/2 (48), (102) Douglas & Grant Ltd. papers.
[109] Campbell, Rise and Fall, p. 63.

Businessmen were also affected by the decisions of their peers when deciding whether or not to invest in new productive capacity. A firm which invested and thereby incurred extra costs had to compete with other firms which continued to rely on old machinery on which the capital costs had long been paid off. When demand was poor and uncertain and competitive prices at a premium, the costs of servicing capital debts could make a vital difference. Contemporaries were very aware of this problem. Ayre, for instance, railed against shipbuilders who put in absurdly low bids in a desperate attempt to obtain orders.[110] The solution proposed, 'rationalization', by which was meant the elimination of excess capacity, was cumbersome and slow.[111] Moreover, since the target was usually small-scale producers, efforts to reorganise the industry represented a threat to small and medium-sized firms such as many of those under consideration here. In industries such as linen, despite the competition which existed between the cluster of firms in the Kirkcaldy area, their boards had a shared interest in avoiding risks which might threaten their independence. In this situation, cooperation on prices or on labour costs might make more sense than an individual strategy based on plant improvement which would expose the firm to under-cutting.[112]

Finally, the role of the ownership and control of business should be noted. The role of generational change in family-owned companies such as Smith, Anderson & Co. Ltd and Tullis, Russell & Co. Ltd. has already been noted; similar points have been made in other studies of family firms.[113] But, as will be seen later in the chapter when the case of Henry Balfour & Co. Ltd. is considered, board changes could lead to shifts in policy in other locally-based companies too. What is significant is that, as was discussed in the

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[110] Ayre, p. 87.

[111] There is a considerable literature on the problems of excess capacity, the impact it had on producers, and efforts to solve it by 'rationalization'. For steel, see Buxton, pp. 112-5; Payne Colvilles, esp. Chs. 7 and 8; for cotton, see W. Lazonick 'The Cotton Industry', in Elbaum and Lazonick; for shipbuilding, see Buxton 'The Scottish Shipbuilding Industry ', pp. 113-7.

[112] For evidence of inter-firm cooperation on prices and on labour costs in the Kirkcaldy linen industry see Kirkcaldy Museum 20/1-6, Scottish Textile Workers Union - Kirkcaldy Branch 60/14 The Kirkcaldy and District Linen Manufacturers' Association; ULDA 66/IX/4/4, Boase Spinning Co. Ltd. papers.

[113] See, for instance, R. Church 'Family and Failure: Archibald Kenrick and Sons Ltd., 1900-1950 in B. Supple (ed.) Essays in British Business History (Oxford, 1977); R.J. Smith 'Bouchayer-Viallet of Grenoble: The Rise and Fall of a French Metalworking Firm, 1870-1972' in P. Jobert and M. Moss (eds.) The Birth and Death of Companies (Carnforth, 1990).

previous chapter, the structure of ownership in both family and other firms gave shareholders little control of boards. In certain cases, the freedom this structure gave to boards and to the leading individuals within them may have worked for change: where a forceful and enterprising managing director such as Sir David Russell or Sir Wilfrid Ayre wished to follow a path of expansion or investment, there was little to stop him. More often, the balance of forces will have favoured stability, as directors opted to preserve their firms. Whatley writes of Don Bros, Buist & Co. Ltd. in the inter-war years 'for a long time their aim was simply to survive'; it is likely that the goal was widely shared.[114]

5.3 Coping with Change and Diversification During and After the Second World War

As Campbell and others have stressed, from the late 1930s on rearmament began to lift the gloom which had surrounded the Scottish economy for so long.[115] In Fife too, the demands of defence had an impact on a surprising variety of industries. The Scottish Economic Committee, for instance, found that the producers of heavier grades of linen were securing 'considerable benefit' from rearmament, whilst the Forth and Clyde Roperie Co. saw demand for its products rise rapidly.[116] After the outbreak of war, military needs came to dominate production. Fife firms showed great versatility in adapting their plant to the production of war material. Nairns developed a process for proofing fabrics against gas attacks and also produced fuel tanks and other parts for military aircraft, torpedoes, gun-mounts and shells.[117] A memorandum in the papers of Henry Balfour & Co. Ltd. lists their contribution to the war effort, including, amongst a wide variety of other items, 1639 Hurricane wings and 27 landing craft. The total value of government orders was valued at £2,733,055.[118] The production of

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[114] Whatley, p. 162.
[115] Campbell, Rise and Fall, pp. 180-2; H. Richardson Economic Recovery in Britain, 1932-9 (London, 1967), pp.290-2.
[116] Report on the Linen Industry, p. 165; W. Tyson Rope. A History of the Hard Fibre Cordage Industry (London, 1967), p. 110.
[117] Muir, Nairns, pp. 131-6.
[118] Kirkcaldy Museum 67/6/7 Henry Balfour & Co. Ltd. papers.

banknotes was transferred to De La Rue Ltd.'s plant at Leslie beyond the reach of German bombers.[119]

High and assured demand continued after 1945. During this whole war and post-war period, the concerns of Fife businessmen as expressed in reports and minutes was less with demand than with supplies and with government restrictions. The 1947 annual report of the Boase Spinning Co. Ltd., for instance, warns shareholders that 'the Sellers market for the products of the company may be coming to an end'.[120] However, in the following years it was 'the dangerously high prices for raw materials' and not any fall in demand which caused concern. Despite regular annual warnings that demand was bound to fall soon, it was not until 1958 and 1959 that the directors reported that this had in fact happened.[121] The Working Party on the Linoleum and Felt Base Industry was quite clear that the linseed oil quota was the chief constraint on the trade.[122]

Although such problems were a source of considerable irritation and complaints about what was seen as bureaucratic and socialist interference in the affairs of business were common,[123] there can be little doubt that these problems were easier for companies to cope with than those of the inter-war years. Even companies such as John Balfour & Co. Ltd. and William Gibson & Co. Ltd. which had previously struggled to make profits were able to pay dividends in these years, and government grants and tax rebates encouraged investment in plant.[124]

During the 1950s, however, this sellers' market began to give way to more competitive conditions. In some senses this can be seen as a revival of the conditions of the inter-war era, and the complaints about 'unfair' foreign competition certainly hark back to the earlier period. Yet, in contrast to the

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119 A. Hunter The Auld Toon o' Leslie (Kirkcaldy, 1957), p. 56.
120 RoC:SCO11107/74.
121 Ibid., 76, 80, 105, 115.
122 Working Party Report, pp. 6, 10.
123 See for instance, a report on a speech by Lindsay Burns in The Leven Mail, 16.4.1947, or the comments of Sir Robert Spencer-Nairn on the government's plans for a working party on the linoleum industry: Kirkcaldy Museum 79/15/4.
124 Sir Wilfrid Ayre, for instance, describes in his memoirs the major programme of investment and re-equipment during the war years at both Burntisland and the Hall Russell yard acquired at Aberdeen, which benefited from Admiralty grants. Ayre, pp. 161-4.

inter-war years, the economic problems of the late 1950s were largely confined to Scotland. Whereas the 1950s and 1960s were a period of almost continuous growth in many European countries, Scotland's gross domestic product barely grew for several years after 1957 and the economy fell back even in comparison to the relatively sluggish UK. According to McCrone's calculations, whereas in 1951 Scottish gross domestic product represented 9.3% of the UK's, and in 1957 was still 9.2%, by 1960 this figure had fallen to 8.7%.[125] Buxton argues that the gap in between the Scottish and British rates of growth for industrial output was at its widest between 1954 and 1963.[126]

Much of this relative decline was due to the problems encountered by the West of Scotland's heavy industries. Yet in Fife too, a number of old-established industries faced major crises. Most dramatic was the collapse of linoleum. UK sales of linoleum fell from a peak of 49.2 million sq. metres in 1954 to 20.8 million in 1965.[127] The period also saw the rapid decline of the linen industry in the face of competition from artificial fibres.[128] Kirkcaldy engineering firms were affected by the decline of the local linoleum, coal and shipbuilding industries. As Bowie had foreseen, the significance of the linoleum industry in Kirkcaldy meant that its decline had wide ramifications.[129]

The fact that demand was changing, rather than simply low, placed diversification at the top of the agenda both for individual companies and for the Scottish economy as a whole.[130] But diversification was not easy. The rest of this chapter will explore the response of a number of different companies to rapidly changing demand in the post-war years and the problems which diversification represented. Although, once more, the

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125 G. McCrone Scotland's Economic Progress (London, 1965) pp.31-2.

126 N. Buxton 'The Scottish Economy, 1945-79: Performance, Structure and Problems' in R. Saville (ed.) The Economic Development of Modern Scotland (Edinburgh, 1985), p. 54.

127 W.S. Howe The Dundee Textiles Industry 1960-1977. Decline and Diversification (Aberdeen, 1982), p. 59.

128 I. Bowie 'A Study of Industry in Kirkcaldy, Fife' (unpubl. typescript, 1960), pp. 11-14. Production of the main categories of finished linen goods declined by a third between 1954 and 1958 alone. The Report of the Census of Production for 1958, (1961) Vol. 2, Pt. 78, p. 10.

129 Bowie, pp. 23-4.

130 For the significance attached to diversification, see B. Lenman An Economic History of Modern Scotland 1660-1976 (London, 1977), p. 247.

experience of a number of companies will be referred to, the analysis will concentrate on three case-studies. One of these case studies is again the Burntisland Shipbuilding Co. Ltd. which had coped so successfully in the inter-war years, but which now faced problems which ultimately destroyed it. A second is Michael Nairn & Co. Ltd. which had also previously flourished, but which ran into severe difficulties in the late 1950s and 1960s which brought it to the edge of closure. The final case-study, Henry Balfour & Co. Ltd., is interesting as a rare example of a firm which did successfully diversify and here the analysis will look back into the 1930s and the war years to discover the reasons for this success.

5.3.1 The Burntisland Shipbuilding Co. Ltd. in Decline

Lenman writes in his Economic History of Modern Scotland that the Burntisland Shipbuilding Co. Ltd. closed after 'it went bankrupt as the result of one miscosted job'.[131] The yard went into liquidation after reporting a trading loss of £747,803 in the year to 31st March 1968, much of it due to ship 418 where the contract allowed the owner to make modifications at the builder's expense, a loophole which the owner, a Pakistani businessman, used to the full. What had started life as a cargo vessel, became in the words of the arbitrator appointed to investigate the case, 'a passenger-cargo-liner' which bore 'no comparison . . . [to] the vessel for which a tender had been prepared'.[132] At meeting after meeting, the estimates of expenditure on materials and labour previously presented turned out to wildly understated.[133] That the contract would affect the balance sheet was inevitable. A loss on the year estimated in January at between £225,000 and £275,000 had tripled by the time the books were closed.[134]

The minute books cannot disguise the incredulity of the non-executive directors. When the managing director was asked 'was it true to say that to all intents and purposes planning had broken down on this ship?', he could only reply in the affirmative.[135] Yet to the members of the board with shipbuilding experience, the contract, though unfortunate, was not

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131 Ibid., 262.
132 GD313/1/3 Burntisland Shipbuilding Co. Ltd. Directors' Minute Book 20.3.1968.
133 Ibid., 20.3.1968, 20.6.1968.
134 Ibid., 20.3.1968, 27.11.1968.
135 Ibid., 20.3.1968.

inexplicable. When the terms of the contract were discussed, 'it was explained that the Company's normal contract conditions gave wide protection but it was not always possible to negotiate contracts on these conditions, the state of the market influencing both buyer and seller at the time of negotiation'.[136] The background to contract 418 was a situation where the yard was desperate for orders.

Table 5.11: Profits, Burntisland Shipbuilding Co. Ltd. 1940-1968

Year (31.3)	Trading profit	Profit on operations	Balance available	Dividend (%)	Additions to fixed assets
1940	47308	52990	39875	13	19743
1941	82066	89946	38840	13	9411
1942	58978	67335	48720	13	0
1943	63696	68753	49723	13	26316
1944	53558	55524	45909	13	15423
1945	57676	56478	51137	15	8660
1946	61799	65181	59818	20	2883
1947	76861	84758	60722	20	1940
1948	153051	160936	103054	20	20204
1949	198429	183497	160789	20	25311
1950	255830	232086	205429	20	19743
1951	334615	283945	522924		152765
1952	186463	145025	1047896		20889
1953	189034	182100	133762		
1954	196449	183587	139588		
1955	271615	262241	230878		
1956	255521	254219	257901		32745
1957	274774	276517	249713		27399
1958	310313	289120	328232		51921
1959	234980	233924	260642		10865
1960	198018	176096	304926		
1961		372219			
1962		143828			
1963		62378			
1964	-6787	-4453			
1965	-70841	113673			
1966	-27607	24523			
1967	-156833	-1988			
1968	-747803	-729571			

Notes: Trading profit - profit on trading operations, before tax; profit on operations - profit on trading and other operations after tax but before depreciation; balance available for distribution - after depreciation and transfers to/from reserves but before dividends and directors' fees (note that this is different from table 5.9); additions to fixed assets - as per annual balance sheets. All figures except dividends in £.
Sources: RoC: SCO10033 Burntisland Shipbuilding Co. Ltd., annual balance sheets.

[136] Ibid., 29.6.1967.

Table 5.12: Tonnage built by the Burntisland Shipbuilding Co. Ltd. 1950-1966

Year	Tonnage deadweight	No. ships	Average tonnage	Profit figures available
1950	25515	7	3645.00	1
1951	29280	7	4182.86	4
1952	38385	5	7677.00	3
1953	25985	5	5197.00	1
1954	29485	5	5897.00	4
1955	39590	6	6598.33	6
1956	47495	6	7915.83	6
1957	48540	4	12135.00	4
1958	45355	4	11338.75	4
1959	16875	2	8437.50	2
1960	27895	3	9298.33	3
1961	37885	5	7577.00	4
1962	28981	4	7245.25	0
1963	6833	1	6833.00	0
1964	24890	4	6222.50	4
1965	19330	4	4832.50	1
1966	1993	2	996.50	0
Total	494312	74	6825.26	47

Notes: Total deadweight tonnage and number of ships receiving builders' certificates per year; average tonnage for ships built per year; and number of ships per year for which building costs and sale price available.
Sources: SRO: GD313/1/2-3, 3/120-121, 5/2. Burntisland Shipbuilding Co. Ltd. Directors' Minute Books, Ship Production Costs, Ships 278-417 and Builders' Certificates Ships 361-402.

To understand this background it is necessary to go back to the immediate post-war years. Table 5.11 gives data on the profits made by the company from 1940 on. Although no figures for sales are available, and so it is impossible to relate profits to turnover, it will be seen that regular profits permitting steady dividends were earned during the war years and that in the late 1940s profits rose rapidly. With the government urging tight constraints on the distribution of profits to shareholders, the result was a marked increase in the company's liquid assets. As Wilfrid Ayre had feared, these assets made the company an attractive target for takeover, and in 1950 he was approached by a representative of the London merchant bank, Reas Brothers Ltd.[137] Although Ayre was able to raise the price substantially, in the end he recommended the offer for approval by the shareholders, arguing that 'if I had declined to negotiate, there would have

[137] Sir Wilfrid Ayre Notes for my Diaries (unpublished manuscript in the possession of Kirkcaldy Library) Vol III, p. 684.

been nothing to prevent the party or any others, making a direct offer to our shareholders, in which event, I am sure, a controlling interest might have been secured at a substantially lower price per share'.[138] As a result of the deal, £900,000 were paid as a special dividend in 1952 to the parent company, and the effect can be seen in table 5.11 in the column marked 'balance available' [for distribution].[139]

The takeover agreement committed Ayre to remaining managing director for at least four further years, and it seems likely that this was a condition to his consent. The board minutes suggest that until his retiral as managing director in 1955 (he remained thereafter as Chairman and later as President), the contribution of the Rea Bros. directors on the board was limited and Ayre remained in effective control.[140] Table 5.12 gives details on production at the Burntisland yard from 1950 on. From this it can be seen that the demand for ships kept the yard busy into the mid 1950s. At the end of 1957, Ayre recorded in his diary that 'from January 1939 to December 1957 (a period of 19 years) all our berths have been continually occupied without a break'.[141] By the second half of the decade, however, conditions changed as competition from foreign yards grew and sellers rather than buyers came to dominate the market.[142] This is indicated by repeated references to the competition from technologically superior continental yards,[143] and by the mounting number of requests for cancellations and delays and the treatment afforded them. In 1954, when a leading Australian shipowner cancelled a contract, 'the Chairman stated that we should act with careful discretion as having secured a substantial hold on the Australian shipping market, any action by us likely to cause dissatisfaction to McIlwraith would have serious repercussions'.[144]

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[138] Ayre Shipbuilders' Yesterdays, p. 284. See also Diaries, Vol III, pp.695-700, GD313/1/2, Burntisland Shipbuilding Co. Ltd. Directors' Minute Book, 1.2.1951.
[139] RoC: SCO10033/83.
[140] See for instance the decision to take over the Alexander Hall & Co. Ltd. in 1953, discussed in Chapter 4, section 4.4.2.
[141] Ayre Diaries, Vol IV, p. 859.
[142] For the problems of Scottish shipbuilders in the post-war years, see P. Payne 'The Decline of Scottish Heavy Industries, 1945-1983' in Saville, pp. 101-8.
[143] GD313/1/2 Directors' Minute Book, 22.11.49, 21.8.1951 (Memo for board).
[144] Ibid., 12.10.1954.

Table 5.13: Profits on Contracts, Burntisland Shipbuilding Co. Ltd. 1950-1964

Years	Loss	Profit 0-5%	5-10%	10-15%	15-20%	Over 20%	Total	Total in category
1950-4	1	4	3	3	0	2	13	29
1955-9	0	0	2	9	6	5	22	22
1960-4	1	3	2	1	3	2	12	18
Total	2	7	7	15	7	9	47	69
Basis price	0	0	3	13	7	6	29	
Fixed price	2	7	4	0	2	3	18	

Notes: Ships built 1950-64 classified by date and by profit margin (excluding overheads) as percentage of building costs. Figures are for 47 ships for which building costs and contract prices are available (out of 69 ships built). For distribution per year of these 47 ships, see table 5.12. The ships have also been categorised by type of contract - basis price means final price made allowance for increases due to delays and inflation, fixed price that price paid was as in contract unless alterations were agreed.
Sources: see table 5.12.

By using the costing records, the directors' minute book and the particulars of contracts, it has been possible to compile data on profits before oncost charges made on 47 of the 70 ships launched by the Burntisland yard between 1950 and April 1965, and these have been set out in table 5.13. If the figures are compared to those in table 5.10 for the inter-war years, it will be seen that the profit margin was smaller if more regular than before the war and that in many cases would have been wiped out by the oncost charges (for which no figures exist but which were probably between 5% and 10%). It must be presumed that the number of orders made up for smaller margins so long as the yard was fully occupied. By the summer of 1959, however, the managing director reported that only one vessel was under construction at the yard and only two ships were launched in that year.[145] With fewer orders, the profit margin became more significant and this was made worse by changes in the form contracts took. Whilst in the 1950s most contracts had specified a 'basis' price to which increases occasioned by delays and inflation were added so that the final prices might be substantially higher, only three of the prices for ships launched after the end of 1959 were calculated in this way. Presumably as a result of the greater power of buyers, most contracts were now based on a fixed

[145] Ibid., 15.7.1959.

price. It was now the builder who was penalised for any overspending and, as can be seen in table 5.13, the profits on such contracts were substantially smaller.

By the early 1960s, therefore, the Burntisland Shipbuilding Co. Ltd. was caught between falling orders and declining profit margins. To this the need for capital expenditure added a further twist. Since at least the late 1940s, the company had been aware of the need to modernize to keep abreast of technological change.[146] In 1950, the yard had written to the Admiralty with plans to spend £158,500 over the next three years, and as a memorandum by Ayre in 1951 indicates, much of this was due to the changes in the manufacturing procedure resulting from the shift from riveting to welding.[147] The major technical change faced by the yard, however, was the increasing size of cargo ships demanded. Burntisland was not equipped to build ships much over 10,000 tons deadweight and even before the war this had been a source of concern.[148] Continued improvements were made and, as can be seen from table 5.12, the average size of ships launched increased substantially in the 1950s. Repeated references, however, can be found in the board minutes to the need to increase the capacity of the berths still further, and in 1960 a plan was put before the board to spend £246,000 so as to give the yard the capacity to build ships up to 15,000 tons deadweight.[149]

Although agreed in principle, the plan was under threat from the start and specific items of expenditure were repeatedly postponed. The reason was the growing unease by the directors representing Reas Bros. about expenditure at Burntisland. As early as 1956, it had been agreed at their request that all capital expenditure be first submitted to the board.[150] By 1960, there was a clear conflict of interest between the shipyard-based directors' requests for investment and the dividends which continued to be paid to the parent company.[151] After Ayre's retiral from any role on the

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[146] On the need for investment in Scottish shipyards to meet changing demands, see Payne 'Heavy Industries' pp.103-4.
[147] GD313/1/2 1.9.1950, Memo in Directors' Minute Book dated 21.8.1951.
[148] Ayre, Memoirs, p. 134.
[149] GD313/1/2 3.10.1960. See also 15.8.1956, 25.9.1957 and background papers for meeting of 15.8.1956 (GD313/1/21).
[150] Ibid., 24.10.1956.
[151] Ayre, Diaries, Vol. IV, p. 928.

board early in 1963 and as profits began to slide, the pressure for savings became intense. In the autumn of that year, the new chairman, a London-based businessman with wide interests, declared establishment charges 'excessive' and called for a thorough review of future policy; the following year there was open disagreement between the Burntisland and London-based directors about the future demand of the industry and the implications for the yard.[152]

In this situation, it is easy to understand the growing desperation to find new markets and orders which can be detected in Burntisland. In 1960, the local directors were discussing plans to diversify into, for instance, structural steel work for various industries, but by 1962 this had only generated work for £5,500. Ayre, now an old man, looked to the past for solutions and recalled the company's experience in the inter-war years with the Economy Ship and with ship-breaking.[153] Specialization was a theme in December 1963, and new methods of marketing were also discussed.[154] The indication is also that in the attempt to win orders, bids became increasingly tight: details of five contracts negotiated in 1963 and early 1964 leave a margin over the costs of material and labour of between 6.2% and 8% of total price agreed, leaving little room for over-spending.[155] The environment in which contract 418 could be signed late in 1964 had been created.

The end of the long period of high demand for ships in the mid-1950s did not in itself create a new situation for the Burntisland Shipbuilding Co. Ltd. As has been seen, the company survived periods in the 1920s and 1930s when the market was even more unfavourable. Yet two factors made the situation far harder to deal with. First of all, the takeover of the company deprived it of the reserves which in the past had enabled it to survive lean years. It also meant that there was a powerful group within the company for whom mere survival until the advent of better days was not enough. Secondly, whereas in the 1930s Wilfrid Ayre had revelled in the efficiency of the yard which enabled him to underbid competitors and still make

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152 GD313/1/2 26.10.1963, 13.12.1960.
153 Ibid., 28 Minutes of Local Directors 11.1.1960, 21.12.1962.
154 GD313/1/2 13.12.1963.
155 Ibid., 3.

profits, by the 1960s the members of the board with shipbuilding experience were only too aware that the yard was failing to keep up with their competitors. As table 5.12 shows, the yard was no longer securing contracts for larger ships and there are frequent comments in the minute books referring to lost markets.[156] Their only answer was further investment and by the end, they were openly accusing Reas Bros. of depriving the company of capital for investment.[157] Flexibility and an ability to survive bad years were no longer sufficient in the changing economic conditions of the 1950s and 1960s.

5.3.2 Michael Nairn & Co. Ltd.: The Search for Alternatives

Even more radical changes in demand were faced by Michael Nairn & Co. Ltd., which remained Kirkcaldy's largest company throughout the 1950s. Although a major international company with world-wide sales and subsidiaries in France and Australia, Nairns remained primarily a Kirkcaldy-based linoleum manufacturer.[158] As an internal company memorandum written at the end of the war shows, its post-war emphasis was firmly on rebuilding its linoleum manufacturing capacity.[159] During the 1950s, as can be seen in table 5.14 this policy continued to create large profits. However, the 1960s were to prove much less successful. In 1961, the Restrictive Practices Court ended the industry's price-fixing agreements and this was followed by a period of falling prices.[160] More significant was the collapse of the market for linoleum. The consequences for the company were dramatic. In 1963, it was forced to merge with its long-time rival James Williamson & Co. Ltd., and, when profits collapsed in 1965/6, the board was radically restructured, so that only one member of the Nairn family

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[156] For instance, in 1966, the managing director referred to the discovery of gas in the North Sea not as an opportunity but as likely to undermine still further the demand for colliers. GD313/1/3 7.7.1966

[157] Ibid.,11.1.1968.

[158] Inventories of stocks held show that in 1940, £943,563 out of a total of £1,082,978 were held in Kirkcaldy, and of that £765.923 was floorcloth and linoleum. In 1950, after the closure of the Greenwich factory, £2,254,190 out of £2,271,667 were in Kirkcaldy and £1,855,000 was floorcloth and linoleum. Kirkcaldy Museum 79/18/2 Michael Nairn & Co. Ltd. Inventory Book, No. 7.

[159] 'Capacity for the Production of Linoleum and Printed Felt-Base in the Immediate Post-War Period'. September 1944. Document in the possession of the company.

[160] Kirkcaldy Museum 79/4. Michael Nairn & Co. Ltd., Directors' Minute Book, 9.4 6.7.1961, 3.8.1961. Annual Report Nairn-Williamson Ltd. 1962.

remained by 1973.[161] In the long-term, the company did recover - largely due to the introduction of Cushionfloor, a reinforced type of linoleum, and it was subsequently taken over by first Unilever and later the Swiss group, Forbo SA.[162] In the words of the sales director in 1973: 'The surgery was successful, but the patient nearly died'.[163]

Table 5.14: Profits, Michael Nairn and Co. Ltd. 1948-1963

Year (to 30.9)	M. & Tr. Profit	Gross Profit	Net Profit
1948	736848	956706	364215
1949	624995	808019	370671
1950	954814	723043	496342
1951	841652	1063041	459084
1952	260766	485817	206247
1953	481033	735255	338221
1954	815921	1036125	443354
1955	957430	1186152	581701
1956	731414	1113118	333348
1957	587329	946286	272176
1958	940540	1322744	505698
1959	1154436	1462592	551359
1960	1590933	1911826	755162
1961	995026	1184320	401606
1962	361905	557276	207766
1963	14509		-9616

Notes: M & Tr. profit - profit on manufacturing and trading of company and its subsidiaries; gross profit - including income from investment and other sources; net profit - after depreciation and tax, but before transfers to reserves and dividends. All figures in £.
Source: SRO: BT2/2498 Michael Nairn & Co. Ltd. annual balance sheets.

Much of this story is part of the rationalization process which swept British industry in the 1960s and 1970s. What is of interest here is the failure of the board, which was dominated by members of the Nairn family, to prevent or solve the problems. To the men who later replaced them at the helm of the company and to business journalists, the reasons for this failure were not hard to find. In an article entitled 'The Merged Group that Forgot to Rationalize', International Management quotes Willis Roxburgh, the new managing director of Nairns who led the company back into profitability, as saying: 'if only they had been ruthless rascals, but the company was

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[161] International Management, May 1973, pp. 24-8.
[162] 'Nairns of Kirkcaldy, 1956/1989'. Unpublished typescript in the possession of the company.
[163] International Management, May 1973, p. 25.

overmanned at the top level by too many delightful people'.[164] The magazine was impressed by some of the cutbacks made: workforce reduced from 5270 to 3469 between 1966 and 1973, senior management reduced by 45%, and charitable donations by 60%.[165] Another article describes Nairn-Williamson as being 'late in accepting lino's decline' and missing the shift into vinyl floorcoverings.[166] Nor is evidence of Nairns' slowness to change hard to find: the decision to appoint a marketing director was only made in 1960, and the company's subsidiary, British Congoleum retained a separate sales force until 1961 despite selling a similar product.[167] When Nairns and Williamson merged, production was continued at both sites, despite serious overcapacity, and care was taken not to favour either site in sales policies.[168]

Yet it would be an over-simplification to present the problems of the 1960s as simply the result of incompetence by the men who led the company. It was rather the case that the crisis they faced was one which transcended the framework in which they worked. The business was not neglected in the 1950s. New grades of linoleum were introduced, product research and development was placed on a more scientific basis, and investment remained high throughout the decade.[169] The company, moreover, remained extremely profitable throughout the 1950s. As can be seen in table 5.14, dips in 1952 and 1956/7 were rapidly overcome. At the annual meeting in 1960 it was reported that 'sales in linoleum goods had increased both in volume and in value', and the following year Sir Robert Spencer-Nairn reported 'a record figure for the Group' with manufacturing and trading profits up 38% to £1,590,000.[170] In a review of Coleman's history of Courtaulds, Checkland suggested that businesses needed to reach 'a critical level of vulnerability' before the need to reform was recognised: in 1960, Nairns had not yet reached that level.[171]

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[164] Ibid., pp. 24-8.
[165] Ibid.
[166] Financial Times, 19.9.1975.
[167] Kirkcaldy Museum 79/4. Michael Nairn & Co. Ltd., Directors' Minute Book 30.6.1960, 11.5.1961; 79/28 Papers concerning the amalgamation with British Congoleum Ltd.
[168] 'Nairns of Kirkcaldy'.
[169] Muir, Nairns, pp. 149-52.
[170] 79/4 Directors' Minute Book, 28.1.1960, 26.1.1961.
[171] S. Checkland 'How Did Business Think?' Economic History Review, 23, 1970, p. 560.

A further problem was that developments in floorcoverings were hard to predict. As early as 1951, the company had moved into the production of vinyl floor tiles, one of the products which was to replace linoleum in the 1960s, but the contribution made by the plant was still being described as 'less than 100% satisfactory' in 1958.[172] In April 1958, the chairman reported after a visit to the United States on 'the great changes which were happening in the American hard-surface floorcovering trade, the trend being away from linoleum . . .'. At this point, he advocated that the company should follow American producers and investigate vinyl and retrogravure floorcoverings.[173] Yet 18 months later, he reported that 'the popularity of the Retrogravure product had waned considerably' in America and plans to develop retrogravure were abandoned.[174]

When the catastrophic drop in sales came in the early 1960s, a successful response would have required a move out of linoleum and hard floorcoverings, the company's traditional areas of expertise. Diversification of this order was not easy for men who 'had been brought up in the linoleum trade since infancy'.[175] This point is well-illustrated by the history of the group's two attempts to diversify in the 1950s and early 1960s.

The first attempt at diversification dated back to 1954 and the acquisition of a controlling interest in Petmar Industries Ltd., a needle-loom carpet manufacturing company in Batley, Yorkshire. This acquisition was clearly a calculated move: a later internal review explained that 'the Company's venture into the soft furnishing's trade . . . had been undertaken partly as a hedge against encroachment upon their existing range of hard-surface floorcoverings arising from the increasing demand for carpetting'.[176] Yet from the beginning Petmar created major problems for Nairns. Early forecasts that the subsidiary would pay for investment from its own profits were wildly over-optimistic and by August 1955, Nairns had invested

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[172] 79/3 Directors Minute Book 30.1.1958.
[173] Ibid., 10.4.1958.
[174] 79/4 30.6.1960.
[175] 79/3 31.1.1957. Sir Robert Spencer-Nairn on Sir Michael George Nairn when handing over the chairmanship of the company in 1957. Although there is no indication of this in the company papers, it is possible that the age of the chairmen in the 1950s (Sir Michael Nairn, born 1874, chairman until 1952, was succeeded by his brother, born 1880, until 1957) acted as a brake on change.
[176] 79/4 29.1.1959.

£1,083,245; nevertheless, in 1956, Petmar requested a further loan of £235,000.[177]

Petmar was managed by its former owner, Ludwik Marbach, who remained anxious to expand into new fields. [178] In March 1956 he was in Kirkcaldy to propose to the board that Petmar should commence the manufacture of tufted carpets. In view of the subsidiary's 'precarious financial position' the proposal was turned down and Marbach told 'instead of diverting resources and effort into that new and, for a time, experimental development, everything should be concentrated upon improving the present needleloom process and product'.[179] Marbach, however, persisted and in May came up with a new plan to produce and sell tufted carpets on a commission basis for another company, a proposal which was accepted.[180] In the short-term this did nothing to improve the situation. A loss of £118,000 was reported on the year to 30th September 1956 and when further losses were projected for the following year, the decision to close the subsidiary was taken and Marbach's contract was terminated.[181]

Yet Petmar survived and largely because Marbach was proved correct. As early as January 1958 it was reported that 'although sales of needleloom carpet had continued to contract, and indeed the product now seemed to be a dying line . . .', sales of tufted carpets were beginning to rise and, by July, with sales still rising, the closure was rescinded.[182] In January 1959, it was agreed that new, broader looms were to be acquired to increase production.[183] During the 1960s, and until it was axed by Roxburgh, the subsidiary was the beneficiary of a major investment programme as it continued to promise but never quite provided profits.[184]

Willis Roxburgh described the attempt to diversify out of linoleum with the acquisition of Petmar in 1954 as 'in many ways farseeing'.[185] Yet it was a

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177 Ibid., 24.1.1956.
178 Ibid., 2.8.1955, 20.7.1954.
179 Ibid., 13.3.1956.
180 Ibid., 22.5.1956.
181 Ibid., 12.9.1957, 24.12.1957
182 Ibid., 16.1.1958, 31.7.1958.
183 Ibid., 29.1.1959.
184 Nairn-Williamson Ltd., Annual Reports 1962, 1963, 1967.
185 Business Administration, July 1973.

leap into the unknown for the Nairn board, which tied up large amounts of capital, required an inordinate amount of the board's time,[186] and ultimately failed because it underestimated the intense competition in carpet manufacturing.[187] Nairns other major diversification programme in the 1950s, the Inverness particle board plant, was a similar saga, if over a shorter time-scale. Here too the company invested heavily, remained dependent on outside expertise, and failed because the original decision was essentially flawed. In 1959, when an initial investigation suggested that a plant capable of producing 11,000 tons per annum would produce an annual profit of £130,000, it was decided to go ahead and McIntosh, an 'independent expert', was appointed director.[188] Yet even before construction was completed, concerns were raised about the likely impact of lower import duties within EFTA,[189] and these fears proved to be well-grounded. In July 1961 'serious concern was expressed at the poor level of sales and the lack of progress to date in that direction' and in December, McIntosh was sacked.[190] With prices for its products 'so low, it could not be profitable', the decision was taken to sell the division at a loss of £287,000 in October 1962.[191]

In the short-term, therefore, diversification was of little help to Nairns. Attempts to move out of linoleum provoked some of the major catastrophes in the company's history. A crucial factor in this was the board's lack of expertise. They were dependent on the advice provided by the men they hired and had trouble judging the quality of that advice. The appointment of Roxburgh to resolve the crisis was a major break with the past, not only in that he was not a member of either the Nairn or the Williamson family, but also in that his background was not in floorcoverings but in domestic appliances. Part of his success was his ability to judge the potential of different product ranges, both in linoleum and elsewhere.[192] Ultimately he succeeded in reducing the company's dependence on floorcoverings. In the long-run, however, the company's salvation came with new grades of

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[186] This point was raised at a board meeting in 1958. See 79/3 31.7.1958.
[187] See Business Administration, July 1973.
[188] 79/4, Directors' Minute Book, 22.1.1959, 9.4.1959.
[189] Ibid., 27.8.1959.
[190] Ibid., 6.7.1961, 21.12.1961.
[191] Ibid., 31.8.1962, 23.10.1962.
[192] International Management, May 1973.

linoleum developed by the company's American partner.[193] If survival required Nairns to develop from being a single-product company, diversification was not an easy answer.

5.3.3 Growth and Diversification at Henry Balfour & Co. Ltd.

The final case-study, Henry Balfour & Co. Ltd., is an interesting and, in the area studied, apparently unique example of a company which followed a deliberate policy of expansion through diversifying into new fields in the middle years of the twentieth century. To understand the development of this policy it is necessary to look back at the inter-war years. This Leven-based engineering firm was established in the early nineteenth century, and, like many engineering companies, had manufactured a very wide range of products in the nineteenth century, including ships and mining machinery. After 1900 it concentrated on the production of gas plant equipment, for both British and foreign markets.[194] The prospectus of a share issue in 1913 describes it as an engineering and iron-founding business with an annual turnover around £35,000.[195] From the early 1930s on, however, the company began to expand into new fields. This appears to have followed a realisation that the markets for their existing products were stagnating, and was linked to the appointment of a new company chairman, Alexander Hutchison, a Kirkcaldy businessman (director, 1927, chairman, 1930), and managing director, W. Lindsay Burns (general manager, 1929, director 1932), who worked closely together.[196]

Expansion firstly took the form of an exchange of shares and directors in 1933 with the chemical and process engineers, George Scott & Son (London) Ltd. This old-established firm were primarily plant designers and the two companies had a long history of cooperation. In 1933, Scott's engineering workshops were closed and the London premises became the research and design office of the new group.[197] Balfours was the larger of

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193 Business Administration, July 1973.
194 SRO: GD410/251/6 Henry Balfour & Co. Ltd., miscellaneous papers.
195 RoC: SCO03138/29.
196 GD410/251/6, 14. Glasgow Herald, 29.12.1933.
197 GD410/7 Annual Report 1933; 410/184 Exchange of Letters concerning link between two companies; 410/211 One Hundred Years of Chemical Engineering 1834-1934 (brochure on history of George Scott & Son (London) Ltd.).

the two companies and acquired the more significant stake in the other company. In 1940 they acquired the remaining shares and Scott's entire facilities were transferred to Leven.[198]

Even more significant was the link-up with the Pfaudler Corporation of Rochester/New York. Pfaudler had developed a process for glass-lining machinery - valuable where hygiene was a priority - and had found world-wide markets for its products. The introduction of tariffs by the British government, made it attractive to establish a plant in UK and they were persuaded to do this in cooperation with Balfours with whom they had previously worked. A new company, Enamelled Metal Products (1933) Ltd., was set up in which the ordinary share capital of £25,000 was divided equally between the two companies, but in which Pfaudler also owned 50,000 £1 2.5% preference shares. A new factory was constructed at Balfours' Leven site including laboratories and 'one of the largest furnaces in Great Britain, for the firing of tanks of exceptional capacity'.[199] Despite teething problems explored below, E.M.P. came to account for around 25% of the group's production in the post-war years.[200]

The effect of this programme of expansion on Balfours was dramatic. From an annual sales of around £50,000 in 1929, turnover mounted to £201,323 in 1936/7 and £1,000,257 in 1942/3.[201] Although unfortunately, less information is available on the post-war years, expansion appears to have continued. E.M.P., in particular, flourished, achieving a turnover of £333,000 in 1948 and an order book of over £800,000 in 1951.[202] By 1960, when the Balfour Group's £250,000 new research centre at Leven was opened by the Secretary of State for Scotland, John Maclay, the company employed over 1200 and was described by The Scotsman (which was particularly pleased that the the company was still Scottish-based) as 'farsighted' and 'one of Scotland's most successful businesses'.[203]

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198 GD410/20 , Henry Balfour & Co. Ltd., Managing Director's Report 3.10.1941
199 Glasgow Herald 29.12.1933; GD/410/7 Annual Report 1933.
200 GD410/251/8.
201 GD410/19, 12, 24.
202 Kirkcaldy Museum 67/6/7. Notes on the history of Enamelled Metal Products (1933) Ltd.
203 The Scotsman, 27.5.1960.

The road to success was not, however, easy. Diversification, was first of all, expensive. The development of E.M.P., in particular, taxed Balfours to the utmost. In 1933, when the fixed assets of Balfours were only valued at £37,311, a total of £24,944 was spent on the new works, and as can be seen in table 5.15, a further £26,300 was invested before the war. Balfours' own works also had to be expanded to create the necessary foundry capacity to meet the demands of E.M.P. for high quality equipment. Expenditure on buildings and plant in the six financial years to 31st October 1939 was £52,611 - as compared to £4,567 in the previous six year period.[204] Much of the money was borrowed, and the bank overdraft of both E.M.P. and Balfours rose rapidly in this period.[205]

Table 5.15: Profits, Enamelled Metal Products (1933) Ltd. 1935-1942

Year (to 31.10)	Sales	Trading Profit	Buildings	Plant & Machinery
1935	67813	7575	678	450
1936	90996	8154	1660	5293
1937	102080	11084	2812	469
1938	100078	6654	495	14387
1939	99057	6532	37	19
1940	91947	1933	0	0
1941	80828	1992	461	3158
1942	66319	10800	595	2382

Notes: Trading Profits - after depreciation, but before tax, transfers to/from reserves and dividends; buildings and plant and machinery - net additions as per annual balance sheets. All figures in £.
Source: SRO: GD410/186-199 Henry Balfour & Co. Ltd. papers, annual balance sheets of Enamelled Metal Products (1933) Ltd.

Diversification also took a long time to be successful. As can be seen from table 5.15, the sales and the profits of E.M.P. grew slowly and Balfours only once received a dividend in the years before the war. Part of this was due to continuing problems with the new technology. At the 1936 AGM of the company, it was explained that one furnace had broken down and a month's production had been lost.[206] This furnace, the muffle furnace, remained a constant source of concern. In 1937, Burns, who was

[204] GD410/4-14, 186-95. Annual balance sheets of Henry Balfour & Co. Ltd. and Enamelled Metal Products (1933) Ltd.
[205] The financing of this programme of expansion is discussed in Chapter 6, section 6.5.3.
[206] GD410/187 Enamelled Metal Products (1933) Ltd., Annual Report 1936

managing director of the new company too, declared: 'at the moment I am very pessimistic with regard to this branch of our business. . . unfortunately we cannot yet produce what I might term a satisfactory piece of equipment' and wondered if the American partner company could send a 'reliable man' to supervise it.[207] In 1938 it was described as standing idle for long periods.[208] Two years later, Burns had decided on radical action. He told the board that 'this furnace has been unsatisfactory from the beginning . . .when it was called upon to operate 24 hours a day, it failed repeatedly', but that it was nevertheless vital to the company. He and the chairman had therefore decided to secure a 50% grant from the Ministry of Supply to rebuild it entirely and the work was already in hand.[209]

Building up a sufficient sales volume was also a problem. In a letter to the American chairman of E.M.P. early in 1937, Burns explained that profits were lower than expected because of disappointing sales and too narrow a range.[210] He returned to this theme in his report for the year to 30th June 1938, arguing in particular that the company needed to find customers in the dairy industry and should act accordingly.[211] The war required another reorientation as markedly fewer orders from the brewing and dairy industries were likely to be available. Only in 1944, as E.M.P. at last found a lucrative market in the pharmaceutical and chemical industries, was Burns satisfied with the level of sales.[212]

It was the war which transformed the situation of the parent company too. Early on it became apparent that its traditional markets in the gas industry were no more secure than demand from E.M.P., and the company decided it had to develop new products in order to survive. Looking back in 1941, Burns declared that 'it is quite apparent that had we not placed ourselves in the position to cater for War work, we should have found great difficulty in carrying on our business successfully, and what is more important, to hold the necessary skilled men'.[213] The company built a new factory with

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[207] Ibid., 191 Letter to E.G. Miner, 11.2.1937.
[208] Ibid., 192 Enamelled Metal Products (1933) Ltd., Managing Director's Report 30.6.1938.
[209] Ibid., 196, 10.4.1941.
[210] Ibid., 191, Balance Sheet 1937.
[211] Ibid., 192 Managing Director's Report 30.6.1938.
[212] Ibid., 200, 18.5.1944.
[213] GD410/19 Henry Balfour & Co. Ltd., Managing Director's Report, 18.7.1941, p. 1.

government assistance and by October 1941, the production of aircraft wings and of floats for the Admiralty were covering 80% of the oncost charges.[214] These new products permitted a massive increase in production and turnover. Orders held by the parent company alone rose from £229,546 in April 1941 to £1,320,543 a year later, by which point Burns was talking of an annual turnover of around £1,000,000 per annum, a figure realised the following year.[215]

It was this war-time success that enabled the company to continue its post-war expansion. When the company floated an issue of £210,000 5% Convertible Loan Stock in 1951, they were able to point to average profits after depreciation over the last 10 years of £48,105, more than half their issued share capital of £80,000, and almost 10 times their average profits in the 1929 to 1939 period. This and further stock and share issues in the next ten years were heavily subscribed by Edinburgh-based financial institutions. By 1960, the issued share capital of the company was £275,000, of which most was held by institutional investors.[216] The company had established itself as an attractive investment in a modern and developing industry. Although producing capital goods, their fortunes were closely linked to rapidly expanding consumer industries. Their publicity material described the company as engineers to the chemical, food and brewing industries and emphasized their commitment to research and to scientific precision.[217] Perhaps the ultimate accolade on the successful transformation of the company was the takeover bid by its former partner, Pfaudler Permutit Inc., in 1963.

5.3.4 The Risks of Change and Stagnation

In an article on the inter-war whisky industry, Weir looks at the problems which diversification presented and concluded that 'diversification was neither common, nor easy, nor swift'.[218] Beyond the means of all distillers bar the giant Distillers Co. Ltd., success took enormous resources, time to

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214 Ibid., 20, 3.10.1941 pp. 8, 10.
215 Ibid., 18, 21, 10.4.1941, 29.5.1942.
216 RoC: SCO03138/109, 117,121, 123, 128, 137, 147.
217 The Balfour Group: Looking into the Future (Leven, 1961).
218 R. Weir 'Rationalization and Diversification in the Scotch Whisky Industry, 1900-1939: Another Look at "Old" and "New" Industries' Economic History Review, 42, 1989, p. 388.

produce results, and continued government assistance.[219] The significance of the last factor is highlighted by Howe in his study of diversification in the Dundee jute industry. Howe too argues that diversification was expensive and took time to succeed and that, without the protection afforded by Jute Control, it is unlikely that the jute companies would have risked the necessary investment.[220] He too ends by concluding that diversification 'is a corporate policy which is unlikely to lead to significant gains in the short-run for companies adopting it'.[221]

These conclusions are borne out by the experience of Michael Nairn & Co. Ltd. and Henry Balfour & Co. Ltd. In the first case, the collapse of demand for linoleum came too rapidly for the company to find an effective answer. Efforts to reduce their dependence on hard floorcoverings from the mid-1950s on were bedevilled by the board's lack of experience in the field of carpet manufacture and their inability to forecast developments correctly. The contrast between their failure to reduce rapidly the production of linoleum and the greater ruthlessness of outside directors was what struck contemporaries, but in the end the survival of the company was as much due to the American discovery of a satisfactory replacement for linoleum as to any other single factor. In the case of Henry Balfour & Co. Ltd., external factors are crucial in explaining why diversification worked. The link-up with Pfaudler was a result of tariff protection and it was the secured demand and high profits of the war years which finally brought the company success. The time element should also be noted. Success in the 1950s was based on a programme of diversification dating back 20 years.

Even if we turn to companies which did not require to move into a new and unknown industry to survive, the changing nature of demand stretched their resources to the utmost. Ultimately, the Burntisland Shipbuilding Co. Ltd. was unable to cope with the demand for bigger ships. The risks which high investment could represent can also be illustrated by returning to the example of Smith, Anderson & Co. Ltd. As can be seen in table 5.1, in the late 1940s and early 1950s, the company went through a period of fluctuating fortunes. The background to this was a round of investment in

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[219] Ibid., 385-90
[220] Howe, pp. 19-20, 65-86, 163-177.
[221] Ibid., p. 178.

new buildings and machinery which had started before the war and was continued after it. Two new boilers were installed in 1938, and an estimated £20,000 was spent on new water turbines in 1946.[222] Work also began on replacing the bag-making factory which had been built in the 1890s and over £10,000 was spent on this in that year alone.[223] In the financial year to 30th September 1949 capital expenditure amounted to £71,276.[224] By then, however, the company was in crisis: 'a sudden and unexpected marking down of the prices of our manufactures by the Paper Control' had led to a loss of £12,522 on the year, leaving a debit balance in the profit and loss account of £3,459.[225] The directors were recalled for a further meeting a week later at which it was revealed that 'Mr. Gordon, the Works Manager, had prepared a detailed statement of the Company's capital commitments which totalled £191,686. Against this we had already paid to account £51,363 which left £140,323 to be met instead of £80,000 as previously estimated at 30th Sept. and as shown on the balance sheet'.[226]

The minutes go on to record that 'a very full discussion of the financial position of the Company followed' and it was agreed that the company was undercapitalized. Tight curbs on further capital expenditure were introduced and no dividends were paid for two years.[227] How the company dealt with the financial crisis will be explored in the following chapter, but an exceptionally good year in 1951 enabled the company to weather further crises in 1952-3 and 1956. The programme of capital investment was, however, maintained: a new paper-making machine was acquired in 1955, another was modernized in 1959 and by 1960 production stood at 350 tons a week.[228] In the long-run this programme of investment was successful, but it almost destroyed the firm.

The fixed assets in the balance sheets of a number of other companies show dramatic increases in value during the 1950s, suggesting heavy

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222 The Papermaker, p. 46; Smith Anderson & Co. Ltd. Directors' Minute Book 5.12.45.
223 Ibid., 22.5.1946, 27.11.46
224 Ibid., 14,12,1949.
225 Ibid.
226 Ibid., 21.12.1949.
227 Ibid., 14.12.49, 14.11.50.
228 The Papermaker, p. 46, Director's Minute Book 21.4.1959.

capital investment. In the case of the maltsters, Robert Kilgour & Co. Ltd., fixed assets at cost before depreciation rose from £52,392 in 1952 to £406,376 in 1960. The investment presumably came from the parent company. Hiram Walker & Sons, who had taken over the company in 1952.[229] The fabric manufacturers, G. & J. Johnston (Wemyss) Ltd., borrowed from the Commercial Bank of Scotland and Industrial and Commercial Finance Corporation to invest around £150,000 in buildings and plant and machinery during the 1950s and raise sales from £208,000 in 1954 to £388,000 in 1960.[230] Both companies survive to this day. At the other extreme were companies such as William Gibson & Co. Ltd. and the previously discussed John Balfour & Co. Ltd., both of which closed during the 1950s. Yet here too the balance sheets suggest that an attempt was made to renew plant in the final years. As can be seen from table 5.6, investment was higher in John Balfours final decade than at any time before. The annual report which announced the closure of William Gibson & Co. Ltd. described the works as 'the finest of their kind in Fife'.[231] Survival through austerity seems no longer to have been an option.

The contrast to the pre-war years can perhaps be explained, by returning to the idea of businessmen facing a choice between two options. The relative gains and losses offered by the two options had changed since the inter-war years. On the one hand, the greater national and international prosperity of the 1950s, must have made the opportunities for profits through investment and growth seem more attractive. On the other side of the balance, the clearly declining trend in sales for products such as linen made the path of caution riskier. The balance between survival and growth had changed: survival had become less secure, growth more promising. Into this must be added the question of firm leadership. The risks taken in Smith, Anderson & Co. Ltd. were taken by men who had come to the fore during the war years; many of the companies which closed were led by ageing directors who had been in office for decades. When William Gibson & Co. Ltd. closed, the two directors, Andrew Cochrane and his wife Margeret, had been in office for 45 and 34 years respectively and were both

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229 RoC: SCO28519/8, 21. Annual reports 1952, 1960.
230 RoC: SCO19406/48, 60. Annual reports 1954, 1960.
231 SRO: BT2/7467/ 95. Annual report for 1953.

aged 84.[232] From its launch in 1925 until liquidation in 1956, Robert Tullis, Junior, Ltd. had only two directors; the company was liquidated shortly after the death of one of them.[233] The events which led to the demise of these companies were not necessarily dramatic: the losses made in the final year's trading for William Gibson & Co. Ltd. and John Balfour & Co. Ltd. were £2476 and £4735 respectively.[234] The problem may have been more that it was difficult to find successors to carry on such decayed enterprises.

5.4 Conclusion

This chapter has looked at the production strategies of a number of firms in two crucial periods in the development of business in the Kirkcaldy area during the twentieth century. The first half of the chapter looked at the 1920s and 1930s, and investigated the ability of firms to survive years of poor and uncertain demand. The importance of caution and flexibility were emphasized. Firms such as Smith, Anderson & Co. Ltd. reduced capital investment and postponed plans for expansion; the examples of Douglas and Grant Ltd. and the Burntisland Shipbuilding Co. Ltd. show the risks of commitment to a narrow product range and the advantages of adaptability. It was argued that in the context of the inter-war years the rewards of risk-taking were small, whilst caution appeared safe. Companies concentrated on surviving, rather than pursue uncertain gains.

In the second half of the chapter, the focus was on the period of restructuring in the 1950s and 1960s. The three case-studies presented were of firms which struggled with varying degrees of success with the problems of changing demand and diversification. In comparison to the earlier period, both the rewards of change and expansion and the risks of doing nothing were greater. Yet change was not easy to manage. Whilst some firms closed because they were unable to keep pace with changing demand, in others, such as Smith, Anderson & Co. Ltd., the price of investment was so high as to threaten survival.

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232 BT2/7467.
233 BT2/13856.
234 BT2/8917/87, BT2/7467/95.

A final question must be to ask if there was a link between the strategies pursued in the inter-war years and success and failure in the 1950s and 1960s. Clearly, cautious investment policies in the inter-war years left many companies with a legacy of ageing factories and machinery and it would be tempting to see the roots of later difficulties in a failure to modernize in the 1920s and early 1930s. Yet the intervening period of war and post-war boom enabled most firms to make profits and some to re-equip. The question of constraints on businessmen has already been discussed in relation to the 1920s and 1930s. Two major constraints in the 1950s were product range or size. As in the inter-war years, many Fife companies were single or dominant product companies; others found their scale of production uneconomic. The examples of Henry Balfour & Co. Ltd. and Smith, Anderson & Co. Ltd. show that it was possible for companies to act to overcome these constraints, but it is surely significant that both did so in the period of high demand between the 1930s and the 1950s. Obviously, the situation facing each firm was different. The Burntisland Shipbuilding Co. Ltd. invested heavily in the yard during the war years and was still ultimately defeated. But where firms failed to exploit the high demand of the Second World War and the post-war years to invest and expand, there is surely a case for arguing that the problem was not so much that short-term and cautious policies were pursued in the depressions of the 1920s and early 1930s, as that these policies were continued in circumstances when greater risks might have been taken. If firms such as Michael Nairn & Co. Ltd. found themselves reacting to events in the late 1950s, it was partly because they did not act earlier when conditions were more favourable.

In explaining this failure to grasp the opportunities presented by the Second World War and the post-war decade, it is perhaps useful to return to the issue of firm control and Boswell's concept of 'congealment' discussed in the previous chapter. As has been stressed, the structure of ownership and control in both family and other firms left boards relatively immune to outside pressure. Moreover, as was discussed in Chapter Four, board membership changed slowly. Many of the firms which ran into difficulties in the post-war years were dominated by old men. Although few instances were found of heirs apparent being killed on war-time service, the Second World War may also have delayed board change as older men

stayed on or employee caretakers were appointed to run the firm whilst younger men were on active service.[235] Firm strategy was, therefore, often dependent on decisions made by groups of old men, influenced by memories of past crises. As we have seen, the board of the Boase Spinning Co. Ltd. expected a similar post-war slump in 1945 to that which had followed the First World War. It is perhaps not surprising that businessmen reared on the advantages of caution only changed strategy when forced to (and by then it may well have been too late), or that where, as in Henry Balfour & Co. Ltd. or in Smith, Anderson & Co. Ltd., firms did move decisively to exploit opportunities, it was often linked to changes in board composition. But such combinations of new boards and opportunities for growth were dependent on demographic chance. Boswell recounts how Sir Arthur Dorman, who had created the firm in the heyday of Victorian expansionism, continued to mould the policies of Dorman Long Co. Ltd. until his death, aged 84, in 1931 so that 'the orientation towards rapid growth persisted long after the rationale had evaporated'.[236] By the 1950s, the weight of the past biased firms towards caution.

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[235] In Tullis, Russell & Co. Ltd., for instance, the firm was managed during the war years by Sir David Russell, born 1872, and by senior employees, whilst Sir David's two sons were on military service. One son was killed in Italy, the other returned to take over the running the firm and oversaw the expansion of the post-war years. Ketelbey, pp. 261-3, 275-8.
[236] Boswell, p. 77.

CHAPTER 6. THE SOURCES AND USES OF CAPITAL

6.1 Introduction

Central to the discussion of production strategies in the previous chapter was the issue of investment. The chapter temporarily set aside questions relating to the sources of capital and concentrated on the levels of investment. This chapter now focusses on capital formation and the related subject of how profits and losses were handled. In an article on accounting practices, Edwards writes that 'finance for business activity falls into two basic classifications - that generated by the firm internally, as a result of successful trading, and that raised from outside'.[1] Much business investment has always been financed from ploughed-back profits, and so the questions of the sources of capital and the application of profits are intimately linked. Equally, where profits are no longer generated, this source of capital dries up.

In discussing the sources and uses of capital, this chapter, like its predecessor, concentrates on the strategies of individual manufacturing firms in the Kirkcaldy area. In this investigation, differences between periods again emerged as significant. The strategies adopted by firms in the years before 1920, in the 1920s and early 1930s, and in the period from the late 1930s on, were found to be markedly different. Whereas in the first period, extensive use was made of external finance and profit distribution was high, in the inter-war years, an ability to reduce disbursements became central to survival, whilst in the third period, internal capital generation was crucial to renewed investment. If differences were important, however, there were also elements of continuity. As with production strategies, the policies followed reflected a balance between the wish to exploit opportunities for profit and fears for the survival of the firm. In the third period, in particular, the desire to retain control emerges as a key constraint on firm development. This chapter examines the three periods in turn, looking both at the specific features of the period and at these elements of continuity in the strategies followed.

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[1] J.R. Edwards 'British Capital Accounting Practices and Business Finance 1852-1919: An Exemplification' Accounting and Business Research, 10, 1979, p. 253.

Much has been written about finance for British industry in the late nineteenth and early twentieth century. At issue, primarily, has been the level of funding available. For some, an inadequate supply of external capital was a major constraint on growth as manufacturing industry was forced to rely on internal generation. Kennedy, for instance, argues forcefully that the very efficiency of British capital markets worked against British industry by directing investment abroad in the pre-1914 period:

> The London stock exchange offered perhaps the best choice of essentially safe securities available anywhere in the world. As a consequence less knowledgeable risk taking (in the sense of domestic, industrial capital formation in areas of advanced technology, the real risks) took place in Britain than in any of her advanced competitors. . . . Had Americans or Germans had the facilities to obtain such high yields with such low risks as did Britons, particularly Londoners, perhaps they too would have taken fewer of the risks which their own imperfect capital markets forced upon them. But Americans and Germans did not have such effective facilities so near to hand and they did bear, collectively and successfully, the risks associated with technical change.[2]

The result was that capital flowed abroad and industry was forced to rely on ploughed-back profits. In his study of the early bicycle and motor industries, Harrison confirms that many firms 'did not find that the relevant sectors of the British capital market afforded them the most favourable facilities and reception' so that 'their capital requirements were not invariably fully satisfied'.[3] Cottrell argues that not only was the stock market of marginal importance to British industry in the period before 1914, but concentration in English banking dissolved the close links which had existed between provincial banks and local industry, leaving bank finance in the hands of London institutions with little knowledge or interest in industry.[4]

Others have disputed these arguments. Michie argues that finance was available for innovation in the Edwardian period, so long as government

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[2] W.P. Kennedy Industrial Structure, Capital Markets and the Origins of British Economic Decline (Cambridge, 1987) pp. 145-6.

[3] A.E. Harrison 'Joint-Stock Company Flotation in the Cycle, Motor Vehicle and Related Industries, 1882-1914' Business History, 23, 1981, pp. 184-5.

[4] P.L. Cottrell Industrial Finance, 1830-1914 (London, 1980), Chs. 6 and 7.

restrictions did not blight any hope of gain.[5] The demand for external capital has also been questioned: in this view, the slow growth of British industry had left it largely able to finance its own needs, and the arms-length relationship which existed between finance and industry reflected above all a lack of demand for bank finance.[6] Cassis, for instance, writes that 'there appears to be little doubt that, up to 1914, there was little demand from industry, particularly from the old staple industries. Most firms remained in family hands, were jealous of their independence and financed investment from ploughed-back profits and informal sources'.[7]

If most debate has concerned the pre-1914 period, questions have also been raised about the availability of capital for industry in the inter-war years. If, according to Thomas, the London stock market became increasingly interested in industrial issues, contemporaries identified a problem for smaller companies in raising capital - the so-called 'Macmillan Gap'.[8] The role of the banks has also been the subject of discussion. If most recent work has suggested considerable involvement with industry, the banks have also been criticized for being too passive in their response.[9]

One consequence of this debate has been to highlight the significance of the internal generation of capital by business and of informal networks. Those who argue that industry was starved of capital have seen it as forced back on such sources, whilst those who defend the role of Britain's financial institutions, suggest, like Cassis, that informal networks were adequate to meet demand. Yet here too doubts have been raised. Lenman and Donaldson argue that private owners preferred to invest elsewhere and so starved their firms of capital; Cottrell suggests that the declining profitability

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[5] R. Michie 'The Finance of Innovation in Late Victorian and Edwardian Britain: Possibilities and Constraints', Journal of European Economic History, 17, 1988.

[6] See for instance, the Report of the Committee on Finance and Industry (Macmillan Report), 1930-1, Cmd. 3897, pp. 161-5; F. Capie and M. Collins Have the Banks Failed British Industry? (London, 1992).

[7] Y. Cassis 'British Finance: Success and Controversy' in J.J. van Helten and Y. Cassis Capitalism in a Mature Economy. Financial Institutions, Capital Exports and British Industry, 1870-1939 (Aldershot, 1990) pp. 4-5.

[8] W.A. Thomas The Finance of British Industry, 1918-1976 (London, 1978), Ch. 2; Macmillan Committee, 173-4.

[9] See in particular S. Tolliday Business Banking and Politics. The Case of British Steel, 1918-39 (Cambridge, Mass., 1987) Ch. 7; D.M. Ross 'The Clearing Banks and Industry - New Perspectives on the Inter-War Years' in van Helten and Cassis.

of industry in the pre-1914 period made it harder to generate capital for investment.[10] On the basis of a study of the car industry, Lewchuk concludes that external finance and the resulting high profit distribution were preferred to the internal generation of capital.[11] Chandler suggests that the high dividends paid by British firms hindered their ability to invest in expansion.[12]

In one sense, the contribution of this study to this discussion on the availability of finance for industry is limited. Since the emphasis of the research was on companies which used manufacturing property, no data was collected on those which failed to raise sufficient capital to commence operations, and so any evidence gained on the key area of finance for new ventures is partial. Moreover, it needs to be stressed again that most evidence is of behaviour: whilst financial statements and board minutes will reveal the sources of capital used and how profits were applied, only rarely do they indicate if businessmen thought the course of action followed optimum. Only limited data is likely to be collected on either the supply or the demand for capital by a study of the actions of existing companies.

Studying what firms actually did, does, however, throw light on some issues raised by the debate. Firstly, research on firms in the Kirkcaldy area points to the continuing importance of informal networks in providing capital for both family-owned and other firms. Secondly, what evidence was collected on financial policies in the pre-1920 period tends to confirm the conclusions of Chandler and Lewchuk on the extensive use made of external finance and on high profit distribution. The short-run nature of these policies should, however, not be exaggerated. It will be argued that high disbursements and external funding made considerable sense for many firms in the period before 1920 and did not prevent them from later switching to a low dividend policy. Thirdly, this study highlights the importance of the passive support of banks in the inter-war years.

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[10] B. Lenman and K. Donaldson 'Partners' Income, Investments and Diversification in the Scottish Linen Area', Business History, 13, 1971; Cottrell, pp. 253-262.

[11] W. Lewchuk 'The Return to Capital in the British Motor Vehicle Industry, 1896-1939' Business History, 27, 1985. See also R. Church 'The limitations of the Personal Capital Paradigm' Business History, 34, 1990.

[12] A. Chandler Scale and Scope. The Dynamics of Industrial Capitalism (Cambridge/Mass., 1990), p. 390.

What emerges as the most significant conclusion, however, relates not to the supply of capital but its nature. If companies used external capital in the period to 1920 or relied on overdrafts in the inter-war years, it was because the particular circumstances relating to these debts left them with a substantial measure of control. This changed in the years after 1945. In this period, external capital came to represent a threat to the independence of firms, and every effort was made to fund expansion from retained profit. The increased number of firm closures and takeovers in this period reflects the problems which this course caused. The focus here, therefore, is on the issue of control: in looking at each of the three periods, as well as looking at how financial policies developed to meet changing conditions, the chapter will also seek to explain how the sources of finance used affected the power exercised by firm leaders.

As already indicated, the main part of this chapter consists of a consideration of three periods divided by the slump of 1920/1 and the economic upturn in the mid-1930s. Before proceeding to a consideration of the three periods, however, the first section will look at annual financial statements, which were the main source used. This source has been the subject of considerable discussion, and the section will briefly survey this literature and explain the use made in this study of company financial statements.

6.2 Financial Statements as a Historical Source

In analysing the financial policies of companies, this study has relied primarily on the reports and balance sheets prepared annually for presentation to shareholders. Even where company papers have survived, they rarely included any other financial records. This is perhaps not surprising, given the importance which businessmen in the early twentieth century attached to financial confidentiality. The 1907 Companies Act, however, required public companies to file a brief balance sheet with the Register of Companies, and, in practice, most companies simply supplied the figures prepared for shareholders, at times including the profit and loss account although not legally bound to do so until 1948. Obviously, since most private companies did not have to register any financial information

until the 1968 Companies Act, the Register of Company files were of little use for studying the majority of firms which opted against public company status. It was possible to a certain extent to correct this imbalance by using the annual financial statements found in the records of a number of private companies. It should be noted that no financial records of unincorporated companies were located or used.

Historians have made considerable use of the financial statements of limited companies and, perhaps because of this, their reliability has been the subject of debate. A number of business and accounting historians have emphasized the problems. In an influential article on the Distillers Co. Ltd., Lee concluded that 'reliance on such reported figures, at least prior to the Companies Act 1948, is an extremely hazardous affair', whilst more recently Wale has written on the pre-1914 period that [her findings] 'indicate that asset and profit figures in the coal industry are in most cases highly unreliable'.[13] In a useful discussion of the problems, Marriner lists a number of separate issues, some general, some specific to the pre-1948 period: financial statements are a 'condensation' of complex financial data which have been especially prepared for the consumption of shareholders; they represent a 'snapshot' view of an ongoing process; key terms such as 'profits' were not defined by the legislation or by the courts and were open to different interpretations so that 'companies had scope for manoeuvre in drawing up financial statements'; asset valuation 'introduces a subjective element'; a wide variety of methods were used to handle the change in the real value of fixed assets in particular; and, without any duty to produce a consolidated balance sheet, companies were able to lump the affairs of their subsidiaries into 'single, jumbled and totally uninformative' headings.[14] Her warning on company financial statements has been widely quoted:

> The battery of criticisms that can be directed against their accuracy, reliability and consistency is so intense that one might

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[13] T.A. Lee 'Company Financial Statements: An Essay in Business History' in S. Marriner (ed.) Business and Businessmen. Studies in Business, Economic and Accounting History (Liverpool, 1978), p. 260; J. Wale 'The Reliability of Reported Profits and Asset Values, 1890-1914: Case Studies from the British Coal Industry' Accounting and Business Research, 20, 1990, p. 266.

[14] S. Marriner 'Company Financial Statements as Source Material for Business Historians' Business History, 22, 1980, in particular, pp. 206-7, 209-13, 216, 218-221, 221-2.

be tempted to conclude that they contain no useful information at all.[15]

One cause for this unreliability was the laxity of the law. As Marriner explains, Parliament and the courts were slow to compel business to adopt more stringent accounting standards.[16] This was partly because of continuing disagreement about what constituted good practice,[17] but also because of the widespread view that too great transparency would be to the detriment of business. Speaking of the inter-war period, Stewart writes 'in this period, disclosure is viewed as an intramural problem of the directors and the shareholders. To give shareholders greater rights to know would result in benefit to competitors'.[18] Criticism of the leeway given to directors in drawing up financial statements only came in the wake of scandals such as the Royal Mail case in which secret reserves had been used to hide from shareholders the true state of the company's financial position. The 1948 Act is generally seen as leading to considerable improvements in accounting procedure. It established that 'managers had a moral duty to appraise shareholders of their progress' and that there existed a public right to know. This was still seen in terms of preventing abuse, however, and it was not until the 1960s that it was argued that there were economic gains in transparence.[19]

Yet the problems identified by Marriner are not simply the result of an inadequate legislative framework and all are not confined to the nineteenth or early twentieth century. A recent textbook on business finance, for instance, argues that 'the precision with which the profit figure is stated in the annual report is rather misleading, for companies have a great deal of discretion in their calculation of the published figure' and 'immense flexibility still exists in the measurement of profit, despite the introduction of accounting standards'.[20] This has led some historians to question the standards by which early financial statements are being judged. Baldwin, Berry and Church, for instance, write: 'Wale lamented the failure of asset

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[15] Ibid., p. 203.
[16] Ibid., pp. 209-214.
[17] Ibid., pp. 223-5.
[18] I.C. Stewart 'The Ethics of Company Disclosure in Company Financial Reporting in the United Kingdom, 1925-1970' The Accounting Historians Journal, 18, 1991, pp. 41.
[19] Ibid., pp. 41- 47.
[20] F.W. Paish and R. J. Briston Business Finance (6th edition, London, 1982), pp. 81, 83.

values in 19th century accounts to reflect accurately value in use. However, this is the nature of historical cost accounts, both ancient and modern'.[21] Mason has argued that financial statements need to be seen and used as historical documents:

> Rather than attempt to force accounts of an earlier period to yield information on the kind that a modern businessman or financial analyst would expect, it is undoubtedly more profitable to make use of them as they stand, and try to look at them through the eyes of a businessman of the period.[22]

This advice is a useful starting point for exploring the strengths and weaknesses of financial statements from the early twentieth century. The very similarities which exist to the financial statements of contemporary companies bring a risk that the differences are simply seen as failings and the historical context is ignored. Financial statements from earlier periods need to be treated as historical documents created within a complex framework and to fulfil specific purposes. As such, they can be a valuable source, and the following paragraphs will look at financial statements in greater detail to explore their strengths and weaknesses for the historian.

By the early twentieth century, the framework within which financial statements were compiled had developed to the point that the statements examined in this study possessed sufficient elements in common for it to be possible to talk of a standard format, so long as it is accepted that minor deviations from this format were common. Furthermore, although the changing legislation, and in particular the 1948 Companies Act, meant that this format developed over time, change - at least in the statements produced by small and medium-sized companies - was not so great that the financial statements of 1960 were not recognisably similar to those of 1900, in a way that is not true in comparison to the financial statements today. It is therefore useful to first look at this format and how it was put together. This method has the advantage of both bringing out some of the problems created by the construction of these documents and of providing a

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[21] T.J. Baldwin, R.H. Berry and R.A. Church 'The Accounts of the Consett Iron Company, 1864-1914' Accounting and Business Research, 22, 1992, p. 100.

[22] J. Mason 'Accounting Records and Business History' Business History, 44, 1982, pp. 294-5.

necessary background to the discussion of the financial policies of the various companies in the later parts of this chapter.

Table 6.1: Standard Format of Financial Statement

BALANCE SHEET

Liabilities		Assets
Share capital		Fixed assets
Debentures		Stock
Other loans		Work in Progress
Reserves		Debtors
Creditors		Investments
Balance Profit and Loss Account		Cash in bank and hand
Total Liabilities	(equals)	Total Assets

PROFIT AND LOSS ACCOUNT

Expenditure		Income
Depreciation		Balance brought forward
Transfers to reserves		Trading profit
Interest on debentures		Other income
Dividends		
Balance to balance sheet		
Total	(equals)	Total

Note: As explained below, dividends, and at times other items, were usually not included in the profit and loss account, but were left to the decision of the AGM.

A standard format for a company financial statement based on those used by Fife companies early in the twentieth century is set out in table 6.1.[23] Liabilities and assets were entered in different and facing columns, both of which came to the same total. Liabilities were always headed by issued share capital, below which came such items as debentures, loans, creditors, and any reserves and, at the bottom, the profit and loss account, which was usually given as a simple balance. Assets were headed by fixed assets, sometimes sub-divided, for instance between land and buildings and plant and machinery. Below this appeared items such as goodwill, stock, work in progress, debtors, all at times grouped under broader headings. At the bottom appeared the company's liquid assets, which

[23] This format is similar to that described by Lee, who goes on to write that 'there was therefore little attempt made at balance sheet classification as it is known today, and anyone wishing to use the balance sheet to gain knowledge of D.C.L.'s over-all financial position, shareholders' equity, or liquidity and solvency would have required to rearrange the data appropriately', Lee, p. 241.

might again be sub-divided between investments, bills receivable, bank deposits and 'cash in hand'.

Profit and loss accounts took a wider range of forms. Very often they appeared directly below the balance sheet with income figures appearing below assets and expenditure below liabilities. The income side usually distinguished between the balance brought forward from the previous year and net trading profits. In addition, the income side might list separately a number of other usually quite small items, such as interest, rents, or one-off gains. The expenditure side varied most widely and a distinction was sometimes made between the profit and loss account itself and an 'appropriation account' into which items over which the directors had some control were put. This might include tax, depreciation, interest paid on loans and debentures, transfers to reserves, interim or preference dividends and sometimes even final ordinary dividends. This last item, however, and at times others, were usually held over to the directors' report as recommendations for the decision of the annual general meeting, which commonly also set the directors' fees. Since the balance left in the profit and loss account after the other expenditure was made was the figure which was carried over to the balance sheet, any transactions decided upon after it was drawn up would not appear in the account and could only be discovered when the figure in the balance sheet was compared to the profit and loss brought forward in the following year.[24]

It is clear that balance sheets represented a combination of figures derived from different sources, and some of which were more tangible or more verifiable than others. Verification is important, since the Companies Act of 1900 made it compulsory for the accounts of all registered companies to be audited by someone other than a director or an officer of the company, if not necessarily by an accountant.[25] If auditors seem to have at first

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[24] This standard format has been used when discussing the balance sheets and profit and loss accounts of Fife companies in the rest of this chapter. This has led to two variations from the practice followed by some companies. As indicated, some companies used both a profit and loss account and an appropriation account, whilst others used only one of the two terms. The term profit and loss account has been used throughout for all such accounts. Secondly, some companies (and even then not on a consistent basis) shifted the profit and loss account from liabilities to assets when the account was at debit. This practice has been not been followed here when calculating total assets.

[25] Lee, p. 245.

interpreted their responsibilities narrowly, this responsibility clearly included checking the books against other available records.[26] How easy it was to verify figures, particularly against external sources, therefore becomes significant. On the asset side, for instance, a figure for goodwill was unverifiable since intangible. Other figures, such as stock, investments, or buildings, plant and machinery, certainly represented tangible assets, but, since the figures were based on valuations, were by no means beyond controversy. This is not to say they were entirely subjective. In the case of stocks, for instance, the figure entered was usually based on an assessment by the directors or managers. But Lister suggests two conventions which would guide them: that the assessment would assume that the company was a going concern (and that the stocks would therefore be used for the purpose for which they were acquired) and the convention 'that revenues and gains should not be recognized unless they are realized' so that stock should be entered at the lower of cost or market value.[27] The valuation of fixed assets is even more complex. Whilst among the manufacturing companies investigated some system of valuation related to depreciation from historic cost was universal, companies used differing rates and practices and were by no means consistent over time. The historic cost system also means that depreciation is subtracted from the previous year's total and any new assets added during the course of the year, thus resulting in 'a jumble of monetary costs from widely differing dates' which might bear no close relation to the real value of the assets at the time the balance sheet was drawn up.[28] In particular, since the starting point was the value which had appeared in the previous year's valuation, any error would be preserved and probably exaggerated over time, unless the assets were completely revalued, which was a rare occurrence. Finally, the asset side was likely to include items such as debtors, cash or bank balance which were both tangible and verifiable, although an element of flexibility was introduced to the first by bad debts.

The liabilities side also contained figures derived from a variety of sources. At one extreme were figures such as the shareholders equity, debentures,

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[26] Edwards, p. 257.
[27] R. Lister 'Company Financial Statements as Source Material for Business Historians: Observations on the Underlying Conceptual Framework' Business History, 23, 1981, p. 237.
[28] Ibid., p. 234.

bank overdrafts and other creditors which represented capital invested in the company, perhaps, in the case of creditors, unwillingly, but in each case likely to be precise since open to verification. Other items were less concrete. This was particularly true of any reserve funds or provisions. These might be earmarked for specified purposes such as to meet future tax liabilities or as a dividend equalization fund to be drawn upon if profits were low, but most companies also possessed a fund which was simply entitled 'reserve' or 'reserve fund'.[29] Additions to all these funds were usually made by a transfer from the profit and loss account, and this was also true of transfers out of the reserve fund. The mere existence of a fund did not of course imply that it was liquid. This was particularly true of the reserve fund which is best seen as consisting of that part of the profits which the board had decided against distributing to shareholders. Since growing companies could not afford to distribute all their profits as dividends and companies only infrequently increased their issued capital, private companies in particular having no compelling reason for doing so, this might come to represent a significant proportion of the capital of the company and be tied up in fixed assets or stock. However, since as we have seen, the valuation of assets was not precise and any over or under-valuation would be preserved over time, the possibility existed that this reserve fund was either a serious underestimation of the amount of capital retained in the business, or, on the other hand, was not in fact represented or fully represented by the company's tangible assets.

The final element of the liabilities was the balance of the profit and loss account. The figure was, of course, derived from the profit and loss account, and represented the residue from the balance brought forward and the total profits made during the course of the year less any distributions or transfers made. In one sense, as Lee writes, 'the balance sheet was nothing more than a summarized trial balance with a proven arithmetical correctness. The profit and loss account was given to support the equivalent balance sheet figure and, as such, was little more than a

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[29] Modern accounting makes a distinction between 'provisions' which are set aside to meet future charges and 'reserves' which are an appropriation of profit. As Arnold writes, this distinction was not clearly made until the 1940s, and, as will be seen, the titles given to funds were sometimes misleading. It has, however, been found useful to use the distinction in a number of the tables. A.J. Arnold 'Secret Reserves or Special Creditors? A Reappraisal of the Reserve and Provision Accounting Policies of the Royal Mail Steam Packet Company' Accounting and Business Research, 21, 1991, p. 204.

reconciliation of that figure'.[30] Information was rarely given on how the key figure in the profit and loss account - the annual trading profit - was reached. It is only possible to know what had been subtracted from it by a process of deduction: if depreciation had been carried out or transfers to reserves made and these did not appear in the profit and loss account, it followed that they must have occurred before a profit was declared. The one thing a trading profit had to do was provide a figure for the profit and loss account which would reconcile the balance sheet. It is to be assumed, of course, that it was also derived from calculations based on sales less costs, yet here too it was the residue - the difference remaining once other figures which had been independently arrived at had been included. The reconciliation of the accounts was evidence that the calculations were correct, but not of the accuracy of the figures. As in the balance sheet, some of the figures were inevitably estimations, and variations from true values would be carried over from one year to the next. Declared profits, therefore, cannot be seen as an accurate figure. They were the product of a calculation in which many of the figures were unreliable guides to the real values of what they claimed to represent.

The profit figure is, therefore, by definition, the least accurate figure in the balance sheet since it resulted from no independent input but was simply the end result of a calculation and dependent on the level of accuracy of each and every other figure. Unfortunately, of course, profits together with fixed assets - which as we have seen were also among the less reliable of balance sheet figures - are precisely those figures which are most useful in assessing company performance and have, therefore, been most extensively used.[31] Part of the criticism of the use of company financial statements originates, therefore, on the one hand, from a sense that the problems are not always recognised, and on the other, from a frustration that the data cannot be made to reveal more. Yet it is perhaps the emphasis on the profit figure which is misplaced. Firstly, we should not assume that profits or the profit figure occupied the same central place in the eyes of the businessmen who drew up the balance sheet that it does for

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[30] Lee, p. 242.

[31] The dangers of using profit figures without checking how they were arrived at is neatly illustrated by Baldwin, Berry and Church in their consideration of earlier research on the Consett Iron Co. Ltd. Baldwin, Berry and Church, esp. pp. 104-106.

financial analysts or economic historians.[32] Secondly, if, as we have seen, there was room for considerable latitude where figures were based on valuations or represented intangible items, other figures in the balance sheet - such as those for liquid reserves or for capital invested - are likely to be accurate. It needs to be recognised that the figures in balance sheets are of varying precision and need to be treated accordingly. Thirdly, the flexibility which accountancy practices gave directors in drawing up balance sheets means that they should also be looked at as an exercise in presentation. Their purpose, after all, was to inform shareholders of the financial position of the company and justify the level of dividends that the board proposed. As Edwards and Webb write:

> The absence of general agreement regarding profit management procedures, during the nineteenth century, provided corporate management in general with ample scope for reporting profit figures designed to achieve particular management aims rather than to portray fairly the underlying economic facts. An important aim of management in the past, and perhaps even today, was to report profits sufficient to cover the desired level of dividend . . .[33]

The scope for presenting performance in the desired light was only slowly reduced during the course of the twentieth century and, as will be seen, there is every reason to believe that this scope was used. The financial statements issued by companies to their shareholders were in Mason's words 'to some extent propaganda, albeit subject to certain rules' and can give some insight into how boards wished results to be perceived and, potentially, into the goals which they pursued.[34] Finally, the ability of boards to disguise the performance of the company they directed over time should not be exaggerated. As the Royal Mail case illustrated, not even the largest company was able to hide disastrous results forever. This does not mean that long-run figures for profits or growth are necessarily more accurate, but it does mean that figures over time can be taken to indicate

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[32] Fidler discusses the various 'audiences' for whom businessmen performed in the 1970s and concluded that the financial press was perhaps the most important one, with the result that annual reports were increasingly targeted to meet their standards of success. There is a danger of projecting back or onto smaller companies the same emphasis on profit figures. J. Fidler The British Business Elite. Its Attitudes to Class, Status and Power (London, 1981), pp. 139-44.

[33] J.R. Edwards and K.M. Webb 'The Influence of Company Law on Corporate Reporting Procedures, 1865-1929: An Exemplification' Business History, 24, 1982, p. 272.

[34] Mason, p. 294.

trends even when each individual figure is open to question. Edwards and Edwards and Webb in particular have shown how it is possible to use runs of financial statements to explore how firms coped with the varying performance of their enterprises over time.[35]

There is thus a good case for using financial statements, particularly where other sources also exist, to explore what McKinstry refers to as 'the financial management' of firms: 'the raising and structuring of capital (including loan capital), the utilization of profit and the control of working capital'.[36] It is in this sense that they will be used in the rest of this chapter.

6.3 External Capital and Profit Distribution Before Ca. 1920

The material available on the financial management of businesses in the pre-1914 and First World War period is limited, partly because the requirement to register financial statements was only introduced in 1907 and did not apply to private companies, partly because even those companies which were required to register balance sheets did not have to include profit and loss accounts, and partly because of gaps in the Register of Company files of some of the larger public companies. This has only to a limited extent been compensated by the discovery of financial records from this period in the papers of three Fife companies, none of them, unfortunately, a public company. The data available is therefore patchy.

Nevertheless, sufficient data was found to suggest certain common features in the experience of firms in the Kirkcaldy area in this period and reach some conclusions on the reasons for these patterns. One of the key features which emerged from the figures was the high proportion of profits which were distributed. As we have seen, the level of profit distribution in Britain in the pre-1914 period has been an issue of debate. Although limited both geographically and in terms of the number of firms considered, the findings presented here support those who have argued for a relatively low level of profit retention. However, in contrast to Chandler, this is not seen as a product of the prevalence of family ownership. High profit

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[35] Edwards; Edwards and Webb.
[36] S. McKinstry 'Financial Management in the Early Scottish Motor Industry' Accounting, Business and Financial History, 3, 1993, p. 276.

distribution was common in both family-owned and other firms, and - if the reasons were not always identical - was related in most cases to a reliance on external capital. The following sub-sections will look at the level of profit distribution and at some qualifications which need to be entered, and then at the reasons for this distribution pattern first in companies with dispersed ownership and then in family firms. This examination of the pre-1920 period will finish by emphasizing the role of informal networks in financing both family-owned and other firms.

6.3.1 The Calculation and Distribution of Profits

When examining profit distribution, the key figure is not so much the level of ordinary dividends, which is obviously related to the size and the make-up of each company's capital, and which excludes other payments made in a period when many companies had bonus schemes for directors,[37] but the percentage of the declared profit which was distributed to shareholders and other investors, and to other beneficiaries. In the case of Michael Nairn & Co. Ltd., the existence of balance sheets and profit and loss accounts for the period from the company's incorporation until 1919 makes it possible to calculate this figure for each year. The financial statements of the company have been summarized in tables 6.2 and 6.3. The profit and loss account declared a trading profit after depreciation on plant and machinery but before depreciation on buildings or provision for fire insurance. If these charges and the provision for excess profits duty which appeared in the final three annual returns are subtracted from gross profits, a very large share of the remaining figure was distributed, as can be seen from the final column in table 6.3, in which an annual percentage is given. A similar calculation has been made for a smaller number of years for Barry, Ostlere and Shepherd Ltd. and the data is presented in table 6.4. Unfortunately, profits were declared after the payment of interest on debentures. If this had been included, the proportion of profits distributed would have been still higher.

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[37] See for instance the special resolution setting up such a scheme in the Allen Lithographic Co. Ltd. in 1904. RoC: SCO04583/14.

Table 6.2: Balance Sheets, Michael Nairn & Co. Ltd.

Year	Ordinary shares	Pref. shares	Other capital	Reserve fund	Provisions .	Creditors	Cash creditors	Bal. of profit and loss a/c	Total liabilities	Fixed assets	Stock, debtors, branch a/c	Cash etc.	Total assets	Year
1894	148275	150000	162000	0	0	3281	0	7338	470884	209535	231198	30152	470884	1894
1895	148275	150000	69000	0	0	4819	0	5555	377649	223674	142637	11340	377649	1895
1896	148275	150000	69000	5000	0	13296	0	8992	394563	225958	157000	11604	394563	1896
1897	148275	150000	69000	12500	0	5335	3000	11545	399654	221934	159301	18419	399654	1897
1898	148275	150000	64000	25000	5000	9197	0	13933	415405	217050	171911	26445	415405	1898
1899	148275	150000	55000	37500	10178	4700	0	27263	432915	210719	192201	29995	432915	1899
1900	148275	150000	45000	50000	20813	6923	0	36205	457216	225000	198585	33631	457216	1900
1901	172989	150000	45000	62500	33691	23597	0	34143	521900	242398	245568	33933	521900	1901
1902	200000	150000	45000	75000	43717	19600	34088	28081	595485	272362	299673	25450	595485	1902
1903	200000	150000	45000	85000	45255	15191	72237	21716	634399	324603	283595	26200	634399	1903
1904	200000	150000	45000	100000	50092	15163	84050	43984	688289	350515	300410	37363	688289	1904
1905	200000	150000	45000	115000	52362	18830	107669	43920	732781	358628	343720	30435	732781	1905
1906	200000	150000	45000	130000	55524	19135	109980	44371	754010	356622	357439	39949	754010	1906
1907	200000	150000	45000	155000	60449	19553	126752	51751	808505	370593	389373	48539	808505	1907
1908	200000	150000	45000	177500	64256	21508	135998	49719	834979	396217	405093	42669	834979	1908
1908	200000	150000	45000	192500	68251	13962	160993	43195	873902	399458	433492	40951	873902	1908
1909	300000	350000	75000	42500	71574	14803	0	60639	914517	403004	416038	95475	914517	1909
1910	300000	350000	75000	67500	75869	20884	0	69611	958864	402262	420905	135698	958864	1910
1911	300000	350000	75000	95000	80939	25011	0	76934	1002884	402256	451694	148934	1002884	1911
1912	300000	350000	75000	130000	85763	26689	0	98178	1065629	380422	499427	185781	1065629	1912
1913	300000	350000	70000	170000	91025	30006	0	98650	1109682	385890	542248	181544	1109682	1913
1914	300000	350000	65000	190000	94036	27335	0	91069	1117440	424192	550589	142659	1117440	1914
1915	300000	350000	60000	200000	99680	25530	0	66363	1101573	432216	444589	224768	1101573	1915
1916	300000	350000	55000	220000	113135	51454	0	87508	1177098	403648	515997	257453	1177098	1916
1917	300000	350000	40000	240000	119010	99455	0	161788	1310231	387422	624699	298110	1310231	1917
1918	300000	350000	0	300000	124382	217933	0	208804	1501119	355201	529511	616408	1501119	1918
1919	600000	350000	0	70000	143934	298673	0	329651	1792258	327024	828281	636974	1792258	1919

Notes: Year to 18th January until 1908, to 18th October from 1908 on (second year marked 1908 is nine months only); other capital - property loan until 1909, then 5% debentures; provisions includes fire insurance fund, bonus and pension funds, tax; balance of profit and loss account is after payment of interim dividends; stock, debtors, branch accounts also includes £90,000 goodwill in 1894; cash includes cash in bank and hand, bills receivable, investments. All figures in £.
Source: Kirkcaldy Museum 79/1 and 2, Michael Nairn & Co. Ltd., Directors' Minute Books.

Table 6.3: Profit and Loss Accounts, Michael Nairn & Co. Ltd.

Year	Trading profit	Profit and loss credit balance	Interest paymts	Deprectn. on buildings	To Reserve Fund	To provsns./ others	To workers	Total dividends	To mangg. directors	Carry forward	Div. on pref. shares (%)	Div. on pref/ord shares (%)	Div. on ord. shares (%)	Total distrib. as % of net profits (%)
1894		36977	8400	3143	0	5582	0	19716	0	138	6		7.33	99.52
1895	28102	28238	3550	5604	0	849	0	17898	0	339	6		7.33	98.44
1896	40007	40346	3688	9986	5000	0	0	21356	0	316	6		8.33	82.49
1897	53301	53617	3879	18013	7500	0	0	23828	0	398	6		10	77.82
1898	73865	74262	3486	23662	12500	5000	1500	23828	3000	1286	6		10	69.77
1899	89503	90789	3083	30262	12500	5000	1864	27556	9539	985	7.25		11.25	75.71
1900	88148	89133	2635	15111	12500	10000	3728	31286	12520	1356	8.5		12.5	78.36
1901	76573	77926	3401	5202	12500	10000	0	31286	11381	4158	8.5		12.5	73.45
1902	68781	72937	3422	4961	12500	10000	0	29974	7357	4724	6.5		10.5	70.29
1903	53112	57835	5646	4914	10000	1308	1000	29000	4081	1885	6		10	76.97
1904	91862	93748	6453	10355	15000	3706	2000	37750	14116	4367	8.5		12.5	75.69
1905	86861	91229	7592	9901	15000	566	2000	37750	13456	4694	8.5		12.5	75.28
1906	86689	91653	8192	8334	15000	1507	2000	37750	13721	5150	8.5		12.5	75.37
1907	107609	112758	8589	9737	25000	3431	2000	37750	20094	733	8.5		12.5	68.71
1908	99205	105362	9352	7443	22500	2098	2000	37750	17803	6415	8.5		12.5	69.82
1908	78192	84608	8339	6619	15000	1956	2000	30500	13828	6367	8.5		12.5	71.89
1909	109669	116035	3750	10896	25000	1500	2500	44000	18007	10381	10	6	5	65.86
1910	114266	124647	3750	10036	25000	2000	3000	47000	19826	14034	10	6	6	65.33
1911	123817	137851	3750	13417	27500	2000	3000	53000	21883	13301	10	6	8	66.68
1912	162489	175790	3750	22612	35000	2000	3000	59000	31709	18719	10	6	10	64.47
1913	163388	182105	3750	23455	40000	2000	3000	59000	31727	19173	10	6	10	62.22
1914	127974	147147	3500	18329	20000	0	5000	59000	21715	19603	10	6	10	69.26
1915	82843	99196	3250	8584	10000	0	7500	53000	10003	6859	10	6	8	81.39
1916	148234	158344	3000	24585	20000	0	9000	59000	26550	16209	10	6	10	72.93
1917	266044	282253	2750	23488	20000	50000	10000	59000	66269	50748	10	6	10	66.11
1918	382395	433142	1211	21878	60000	115000	12000	89000	56102	77952	10	6	20	53.44
1919	555949	633901	0	20000	70000	180000	20000	149000	110983	83918	10	6	20	64.53

Notes: Year - as 6.2; profit and loss credit balance - trading profit and balance brought forward; interest payments - includes interest paid on property loans and debentures; depreciation on buildings - includes extra depreciation on plant 1897-1900; to provisions - includes in 1894-95 goodwill and preliminary expenses, later fire insurance fund and liabilities for tax; to workers - bonus and pension fund; total distributed as percentage of net profits - interest payments, dividends and bonuses as proportion of trading profit less depreciation and provisions. All figures in £ unless otherwise specified.
Source: as 6.2.

Table 6.4: Application of Profits, Barry, Ostlere and Shepherd Ltd.

Year (to 31.1)	Balance brought forward	Profit in year	Total	Transfers to/from (-) reserve	Pref. dividnd	To fund for pref. divds.	Ord. dividend	(%)	Profits distrib. as % of total profits (%)
1900								7.5	
1901								6	
1902		22541			15000	3750	14600	2.5	131.32
1903		50930			15000	3750		0	29.45
1904	9372	61135	70507	15000	15000	3750	29200	5	72.3
1905	7556	62364	69920	14250	25000	3750	29200	5	86.9
1906	7082	41352	48434	0	21000	5250	17520	3	93.15
1907	4664	24243	28907	-37000	21000	5250	14600	2.5	146.85
1908	2057	40830	42887	0	21000	5250	14600	2.5	87.19
1909								0	
1910								2.5	
1911								2.5	
1912								2.5	
1913								2.5	
1914								4	

Notes: Profits - as declared after depreciation, interest payments (incl. on debentures) and tax; to reserve for pref. dvds. - to special reserve fund for preference dividends; profits distributed as percentage of total profits - dividends as proportion of declared profits. All figures in £ unless otherwise stated.
Sources: RoC: SCO04357, Stock Exchange Official Intelligence 1905, 1910, 1914, The Scotsman 12.4.1901, 6.4.1906, 27.3.1907, 26.3.1908, The Fife Free Press 29.3.1902, 9.4.1904, 25.3.1905.

Although data of the quality of that on Michael Nairn & Co. Ltd. is not available for other Kirkcaldy companies in this period, where figures were found, they confirmed the impression of high profit distribution. In the Boase Spinning Co. Ltd., depreciation practices make comparisons difficult (fixed assets were held at £20,000 and the value of any additions was immediately written off), but the dividend figures were high and rising in the pre-1914 era. In 1914, for instance, 25% was paid on the ordinary shares, and the annual general meeting noted with satisfaction that 'in the last five years £124,545 7/9 had been earned, and of this £100,000 had now gone to shareholders'.[38] In John Haig & Co. Ltd., dividends absorbed 87.75% of declared profits in the seven years from 1900 to 1906 and 70.42% in the period from 1909 to 1915.[39] In many years, they exceeded the profit declared and were partly met from the balance brought forward from previous years. In 1908, the board explicitly noted that the 3% dividend

[38] ULDA 66/IX/1/1 Boase Spinning Co. Ltd. Directors' Minute Book, 11.5.1914.
[39] Calculated from figures in the General Meeting Minute Book of John Haig & Co. Ltd., United Distillers Archive.

was being met from £3500 transferred from the 'General Reserve'.[40] In the Fife Linoleum Co. Ltd., 6% dividends were paid in the first two years of operation, 1905 and 1906, and absorbed respectively 60.73% and 64.76% of the declared profit.[41] For the distillery company, William Young & Co. Ltd., where figures for the period 1907 to 1913 are available, dividends exceeded profits after depreciation in three of the six years and were only maintained out of reserves accumulated in the profit and loss account.[42] For the Fife Coal Co. Ltd., full figures are only available for 1913, but dividends absorbed 70.33% of the sum available for distribution in that year (including the balance carried forward).[43]

It needs to be said at once that these figures should be treated with considerable caution. Since it is not always clear how profits were calculated, too great a reliance on precise figures or a comparison between companies would both be inappropriate. A more detailed examination of the financial statements of the one company for which this is possible, Michael Nairn & Co. Ltd., indicates that in this case accountancy procedures may have led to the underreporting of profits and the proportion of profits retained in three respects. Firstly, it seems probable that the book increase in fixed assets between 1894 and 1919 which can be seen in table 6.2, although large, understates the scale of expansion. Fixed assets were entered at historic cost less depreciation, but for most of the period, the annual balance sheets contains only one net figure and, whilst the profit and loss account gives the amount set aside for depreciation on buildings each year, since all fixed assets were lumped together in the balance sheet, no rate can be calculated. However, between 1912 and 1916, when figures for depreciation are given, that on plant and machinery varies from 10.76% to 14.57% per annum, which is markedly higher than the rates suggested in the contemporary literature.[44] By this time, depreciation on buildings was done in such a way that the figure which was entered in the balance sheets was always a round one. Thus, for instance, in 1912, £12,612 2/9 was spent on additions to buildings and depreciation was entered at £22,612 2/9, thereby reducing the book value from £300,000 to

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[40] Ibid., 30.4.1908.
[41] SRO: BT2/5734/18.
[42] BT2/1711/37-42.
[43] BT2/2826/45.
[44] See Edwards, p. 256.

£290,000. This gives a figure for depreciation of 7.23%, which is again more generous than was generally considered necessary. More important, the system used - and the fact that it was subtracted after gross profits had been calculated - suggests that depreciation on buildings was regarded as an appropriation on profits which could be varied according to their level. A comparison of the columns for trading profits declared and for depreciation in table 6.3 reveals a rough relationship, with particularly high depreciation around 1899 when profits were high, a trough in the early 1900s, as they fell, and further peaks in the good years of 1904, 1907, and 1912/13. Clearly, if directors regarded depreciation as a variable which could be changed according to the profits generated, this not only had a distorting effect on the level of net profits, but also meant that they were seizing the opportunity to write down the value of their fixed assets more than was strictly necessary in precisely those years when the highest distributions were likely to be made.

Secondly, when calculating the proportion of profit distributed, transfers to the fire insurance fund were regarded as a provision. There is a case for arguing that this was not entirely justified. The fund was set up in 1898 to cover losses not covered by the company's insurance, such as loss of earning.[45] Fire was a major risk in the floorcloth and linoleum industry and the Nairn factories had suffered a major conflagration in 1879.[46] The regular payments made from the fund demonstrate that it met a real need. Nevertheless, the fund built up over time, passing £90,000 in 1913.[47] From 1907 on, its size was used as a justification for reducing the level of insurance cover on the buildings.[48] It is therefore arguable that the fund was larger than was necessary for its stated objectives and should be considered as part of the general reserves of the company. If so, the column in table 6.2, which gives the annual balance sheet figure for what was simply described as the 'Reserve Fund' underestimates how much of the income generated was retained in the business. Although the figure rises over time both before the capitalization of reserves in 1909 and

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45 Kirkcaldy Museum 79/1, Michael Nairn & Co. Ltd. Directors' Minute Book, 16.4.1898.
46 A. Muir, Nairns of Kirkcaldy (Cambridge, 1956), pp. 76-7.
47 79/2, Michael Nairn & Co. Ltd. Directors' Minute Book, 8.1.1914.
48 79/1, 27.3.1907; 79/2, 31.3.1913, 18.2.1914.

particularly thereafter, it would have been still higher if depreciation had been less severe and if the Fire Insurance Fund had not been so large.

One further bookkeeping practice of the company distorted the profits declared and this concerned the repayment of long-term loans. It will be seen in table 6.2 that the capital included a figure for property rented to the company by the Nairn family (entered in the balance sheet as 'Property Loan' - in column 'Other Capital'). This fell from £69,000 in 1897 to £45,000 in 1900. Since no equivalent payments appeared in the profit and loss account, it is impossible to know precisely what occurred, but any payments must have been made before profits were declared. Later, when debentures were repaid between 1913 and 1918, a minute reveals that this was the procedure followed.[49] If this was the consistent practice, then the true level of profits was at times concealed, since capital repayments were not included. Admittedly, these profits were not retained, but the company gained a reduction in its long-term debt from the transaction.

In 1932, when Sir Michael Nairn praised 'the long-sighted policy and good guidance of past managements' and claimed that 'the same conservative policy was being followed today', he was presumably referring to such practices.[50] Arnold claims that excessive depreciation was seen as a 'cautious' financial safeguard well into the inter-war years.[51] Profit figures, therefore, need to be treated carefully. But an analysis of the accounting practices followed is not enough to negate the general conclusion that disbursements were high. In the case of Michael Nairn & Co. Ltd., even if distribution is calculated as a proportion of profits before depreciation on buildings and transfers to provisions (and this would be to exaggerate the level of retained profits), well over 50% of profits was distributed in most years. Accounting practices could also distort figures in the other direction. The Fife Linoleum Co. Ltd. made infrequent allowance for depreciation on its fixed assets in its early years, thereby increasing the annual sum available for distribution.[52] Although the figures do not permit accurate statistics, the conclusion must be that a high proportion of profits was

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[49] Ibid., 29.6.1918.
[50] 79/3, Michael Nairn & Co. Ltd. General Meeting Minute Book, 7.1.1932.
[51] Arnold, p. 203.
[52] SRO: BT2/5734/18, 21, 22.

distributed by companies in the Kirkcaldy area in the period up to and including the First World War.

6.3.2 Public Companies and External Finance

To understand this high level of profit distribution, it is necessary to turn to the sources of capital used. This is most obviously the case for those companies where ownership was dispersed. It will be recalled from Chapter Three, that a number of such companies were launched in Fife between the 1890s and 1920. For these companies, the public sale of shares and stock was a major source of finance. Barry, Ostlere and Shepherd Ltd., for instance, raised over half a million pounds from the public between its launch in 1900 and 1905.[53] If for most of the other companies the sums raised were far smaller, they could still represent significant proportions of the capital used. In some cases, such as, for instance, the Fife Linoleum Co. Ltd., the Fife Distillery Co. Ltd. or the Scottish Cyanide Co. Ltd., all the capital was raised from the public. In others, such as Henry Balfour & Co. Ltd. or Scott of Kinghorn Ltd., the vendors were given some of the shares in exchange for their assets, whilst other shares were sold to raise capital. In many cases, moreover, companies returned to the public to raise further capital after a very short lapse of time. The Fife Linoleum Co. Ltd., for instance, issued a prospectus to sell 5% debentures for £15,000 in 1907, only two years after its launch, John Balfour & Co. Ltd. raised £15,000 in three separate issues between 1913 and 1918, and Barry, Ostlere and Shepherd Ltd. sold 10,000 £10 preference issues in 1904 and debentures for £200,000 in 1905, both within five years of its launch.[54] Where prospectuses exist for these later issues of shares, the finance of extensions to works or other fixed assets are the invariable reason. In the case of the 1907 debenture issue by the Fife Linoleum Co. Ltd., for instance, the prospectus explains that a further £13,000 were required to expand the works and the balance was to be used to acquire a London sales office.[55]

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[53] See Chapter 3, section 3.2.3.
[54] SRO: BT2/5734/18; RoC: SCO03138/29, 33, 38; Stock Exchange Official Intelligence, 1910, p. 578.
[55] BT2/5734/18.

There therefore existed in the Kirkcaldy area by the time of the First World War a number of companies for whom the public had become a major source of capital. Not only was the public invited to subscribe when the company was launched, but when further expansion was planned, a further appeal might be made. The success of firms in raising capital for a wide variety of ventures, including some of a fairly speculative nature, lends support to Michie's conclusion that, if a favourable moment was chosen, it was relatively easy to raise money by this means, particularly from local investors.[56] According to Cottrell, the years between 1890 and the mid-1900s was one period when there was considerable interest in British industrial shares.[57]

The preference of investors for local shares can be explained by the paucity of accurate investment information in an era when companies were extremely reluctant to divulge details on their past performance or present circumstances. Without access to such details, investors, most of whom were individuals in this period, were forced to rely on the reputation of promoters in assessing future prospects.[58] Harrison stresses the devices used to lure investors, including titled directors and bribes to financial journalists to place favourable articles.[59] Yet potential investors were likely to expect certain forms of financial information and this had implications for the future commitments of the firm. First, investors would be influenced by the security offered. Since information was unreliable, it is not surprising that a significant proportion of issues were of preference shares or debentures where cumulation and ranking increased the probability that subscribers would be regularly paid.[60] Companies which wished to raise capital were forced to enter into commitments to pay dividends or interest, regardless of the level of their profits. Furthermore, the level of interest companies had to offer was related not only to current interest levels, but also to the level of risk which appeared to be involved. Whilst Barry, Ostlere and Shepherd Ltd. could offer debentures at 4% in 1900 and 4.5% in 1905, the Kirkcaldy Spinning Co. Ltd. offered 6% on its preference shares in

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[56] R. Michie Money, Mania and the Markets. Investment, Company Formation and the Stock Exchange in Nineteenth Century Scotland (Edinburgh, 1981), pp. 152-4.
[57] Cottrell, p. 168.
[58] Ibid., pp. 196-8.
[59] Harrison, pp. 172-5.
[60] See also Cottrell, pp. 164-7.

1898, and the second Scottish Cyanide Co. Ltd. 10% on its preference shares in 1905, after the first company of that name had failed.[61] The attraction of issues might also be enhanced by offering further guarantees. The articles of Barry, Ostlere and Shepherd Ltd. established a 'Special Reserve Fund for Preference Shares' into which a sum equal to a quarter of the annual preference dividends was to be paid yearly.[62] Where a return was made to the money market, further commitments might have to be made. Usually a second issue rated after the first one in the payment of dividends or interest or on the dissolution of the company (and might therefore require a higher rate). The interests of earlier share or debenture holders had also to be protected. In the case of Barry's dividend reserve fund, the articles were amended to give the original preference shareholders priority access.[63] The ability of established companies to raise further money from the public was also related to their past performance. Past results might indicate that a company was profitable and that it would be able to meet the commitments it was entering into and some data on past performance was regularly included in prospectuses. Finally, since the consent of ordinary shareholders to an increase in the capital or the borrowing rights of the firm had also to be obtained, it was necessary to reassure them that the profits of the company were large enough to ensure that they would continue to receive dividends. Here too, the distribution of adequate dividends was likely to be crucial.

The combination of all these factors meant that reliance on the sale of shares and stock to the public committed companies to high dividends and high levels of profit distribution. Obtaining capital might involve taking on a high burden of fixed interest charges and the payment of generous ordinary dividends. Under these circumstances, the retention of profits was not easy and companies found it difficult to change course once they had embarked on a strategy of relying on external funding to pay for expansion. One rather imperfect measure for assessing the relative importance of new capital and retained profit in financing development is to examine how an increase in fixed assets was reflected in liabilities on the balance sheet. The data on the Fife Linoleum Co. Ltd. and Henry Balfour & Co. Ltd.

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61 Stock Exchange Official Intelligence, 1910, p. 578; SRO: BT2/3812/2, BT2/5960/3.
62 RoC: SCO04357/2.
63 SCO04357/18.

presented in table 6.5 shows that for these two companies the rise in assets was almost entirely covered by increased external capital, whilst the reserves, which best indicate retained profits, remained virtually static during the period between 1907 and the First World War.

Table 6.5: Capital Growth, Fife Linoleum Co. Ltd. and Henry Balfour & Co. Ltd.

	Fife Linoleum Co. Ltd.					Henry Balfour & Co. Ltd.			
Year	Share capital	Debs.	Res. fund	Buildings	Total assets	Share capital	Reserve fund	Fixed assets	Total assets
1908	32580	9233	1000	10904	51815	10000	5000	6643	19967
1909	32580	14623	1000	18742	64503	10000	5000	6637	20100
1910	32580	19262	1000	19996	68717	10000		7232	19855
1911	32580	19762	1000	19928	74424				
1912	32580	19762	1000	19995	71434	10000		7417	22728
1913	32580	19762	1000	19713	75321	14000	5500	9343	26446
1914	32580	19512	1000	19440	78053	18000	5500	20298	33568
1915	32580	19762	5000	19067	76568	22000	5500	20867	38497
1916	32580	19762	6000	18510	78148	22000	5500	20972	44336
1917	32580	19762	7000	17937	83567	22000	5500	20650	41205
1918	32580	19762	8000	17775	91664	25000	5500	19884	44170
1919	32580	19762	10000	18296	106067	25000	5500	21381	51802

Note: All figures in £ unless otherwise stated.
Sources: SRO: BT2/5734; RoC: SCO03138.

An illustration of the problems of a company relying on external finance is provided by the early years of Barry, Ostlere and Shepherd Ltd. When the company was incorporated in 1900, although shares valued at £834,000 and debentures for £150,000 were issued, most of it went to the owners of the three firms which were amalgamated to form the new company and only £267,000 was available as working capital. In order, however, to exploit the patents for inlaid linoleum that the company had acquired from Frederick Walton, the company needed to invest in new buildings and plant, and over the next four years over £160,000 was spent on fixed assets. In addition, £80,000 had to be invested in the company's French subsidiary, the Compagnie Rouennaise de Linoleum SA. To finance current spending, the company relied on overdraft facilities and the cumulative result was that by 1904 the company required £33,750 annually to service its various fixed interest charges and dividends. Total profits in the three years to 1905 after these charges came to £118,179, out of which £58,400 in ordinary dividends were paid (see table 6.4 above). Only

£29,250 could be transferred to the reserve fund, which was under £70,000 in 1905.[64] Under these circumstances, the company was clearly unable to retain sufficient profits to clear its overdraft or invest further. The company returned to the money markets and raised over £200,000 in 1904 and 1905. This, however, increased its fixed interest charges. Coping with such a capital structure was fraught with risks, and in 1906 a price war led to a 'regrettable reduction in the selling price of goods' and threatened to derail the process. Dividends could only be met by taking £37,000 from reserves.[65] As Morgan notes, it was not until the eve of the First World War that increased sales finally pulled the company out of danger.[66]

Barry, Ostlere and Shepherd Ltd. was one of Kirkcaldy's leading companies, and the problems a company of such stature faced do reveal the risks involved in raising money from the public. As we have seen, a number of public companies in the Kirkcaldy area did collapse in this period. However, in most cases, the Fife companies which raised money from the public seem to have succeeded in meeting their commitments until the increased profits of the war years saw them achieve a more secure financial situation.[67] This ability to survive is partly explained by the nature of the relationship between boards and shareholders. If firms were forced to enter into commitments to raise capital, they still possessed a number of advantages. First of all, the mantle of secrecy which shrouded their financial affairs gave them a monopoly of information. As Edwards shows in relation to the Shelton Bar Iron Co. Ltd., it was quite possible for a board to distort figures on the company's performance so as to enhance its appeal to investors.[68] The prospectuses issued by Fife companies in this period all had glaring omissions. That of Henry Balfour & Co. Ltd. in 1913 gave the ordinary dividends for the past three years, but contained only a very general statement of sales, and no figure for profits.[69] The prospectus

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64 This analysis is based on data in RoC file SCO04357. See, in particular, 21.
65 The Scotsman 6.4.1906.
66 N. Morgan 'John Barry' in A. Slaven and S. Checkland (eds.) Dictionary of Scottish Business Biography 1860-1960 (Aberdeen, 1986), Vol. 1, p. 309.
67 Of the 13 limited companies in 1907 which held manufacturing or mining property in the Kirkcaldy area and which did not transfer to private company status, 9 were still active in 1920. For statistics on the survival rate of companies with dispersed ownership after 1920, see figure 4.2.
68 Edwards, see esp. pp. 253-6.
69 RoC: SCO03138/29.

issued by Barry, Ostlere & Shepherd Ltd. in 1905 gave profit figures for three years, but no information on turnover.[70] There was little to stop businessmen presenting their company in an unjustifiably favourable light to attract capital. Once the investment was made, moreover, shareholders were locked into the relationship, and boards could act with impunity. As can be seen in table 6.4, dividends on the ordinary shares dropped in Barry, Ostlere & Shepherd Ltd. after the second debenture issue in 1905.[71] In the Fife Linoleum Co. Ltd., no ordinary dividends were paid in at least four of the six years following the 1907 debenture issue.[72] Even preference share and debenture holders were not safe: in 1905, the Scottish Cyanide Co. Ltd. was dissolved and the only repayment available was lower valued shares in a new company of the same name.[73] External finance may have committed many companies with dispersed ownership to high profit distribution, but in the period up to and including the First World War, the risks involved paid off for a majority of entrepreneurs.

6.3.3 Finance for Family Firms

The examples of high profit distribution noted earlier included not only companies with dispersed ownership, but also family firms. In these cases too, profit distribution was related to the sources of capital. The extent to which family firms raised capital from sources external to the family should first be noted. As was explained in Chapter Three, until the 1907 Companies Act introduced a distinction between public and private firms and prohibited the latter from selling shares to the general public, a number of family firms sold blocks of shares to raise capital.[74] The 1907 Act required public companies to register annual financial statements and few family firms were prepared to sacrifice their confidentiality, so that thereafter this means of raising capital was rarely used by family firms. However, other forms of debt remained common. In the case of Smith, Anderson & Co. Ltd., it will be recalled, William Verden Anderson and George Anderson inherited the company from a distant relative with a charge of £40,000 on

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70 SCO04357/21.
71 Stock Exchange Official Intelligence, 1910, p. 578.
72 SRO: BT2/5734.
73 BT2/5960/8.
74 The examples of John Balfour & Co. Ltd. and the Wemyss Coal Co. Ltd., in both of which family retained a majority of the shares, are given in Chapter 3, section 3.2.3.

the heritable property. Paying off this debt was seen as the first priority of the new management and no dividends were paid until 1915 when a sum large enough had been saved to discharge it.[75] In Douglas & Grant Ltd., the limited company inherited from the former partnership both a debt to the estate of Lewis Grant and an overdraft to the Commercial Bank of £20,000.[76] The balance sheet of Robert Hutchison & Co. Ltd. in 1908 included among its liabilities an overdraft with the British Linen Bank of £7,590, a bond over one of the company's malthouses for £3,034, cash advances of £1,557 and other unspecified 'sundry private accounts' amounting to £4,028.[77] The Earl of Rosslyn prided himself that 'I arranged with the Standard Insurance Company to lend the company £60,000 in debentures at 4.5%, which was an extraordinarily low rate' when the Earl of Rosslyn's Collieries Ltd. was incorporated in 1897.[78]

External funding was therefore not restricted to public companies. Of the 24 incorporated companies in the Kirkcaldy area with property valued at £250 or over in 1910, in ten ownership was dispersed, seven were family firms which relied on sizeable outside funding and only seven were private companies with no significant external debts or non-family shareholding.[79] However money was found, family firms with capital raised or borrowed from outside the family entered into very similar commitments to those entered into by public companies. Debenture issues and preference shares committed companies to pay dividends at regular intervals; other loans bore interest charges. Family firms which borrowed or raised capital by these means might end up distributing a high proportion of profits for very similar reasons to public companies.

It would, however, be wrong to claim that the high level of profit distribution among family firms was always due to the need to service external debts or fixed dividend shares. Lenman and Donaldson describe the 'Scottish linen area' in the late nineteenth and early twentieth century, in which huge

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[75] Smith, Anderson & Co. Ltd., AGM Minute Book, 15.11.1909, Directors' Minute Book 16.11.1914.
[76] SRO: BT2/8394/7. The consequences of debt for this company are discussed in Chapter 4, section 4.2.
[77] RoC: SCO02806/6.
[78] Earl of Rosslyn My Gamble with Life, (London, 1928) p. 143.
[79] Statistics based on the sources and methods described in Chapter 2.

profits were made in linen, jute and linoleum and were invested outwith the area by the 'jute and flax barons' who dominated the industries.[80] There is considerable evidence that entrepreneurs made large fortunes in industry during the late nineteenth and early twentieth century.[81] In this the Kirkcaldy area was no exception. Local business families amassed considerable personal wealth from their linen, linoleum, coal and paper firms.[82]

In these cases too, however, high profit distribution to family shareholders was related to the nature of business funding. This can best be illustrated by returning to the example of Michael Nairn & Co. Ltd. where, as we have seen, disbursements were high (see table 6.3 for figures). Most of these disbursements went to members of the family. This was true both of the dividends - the family retained the overwhelming majority of the shares[83] - and of most of the other disbursements. When the company was incorporated in 1893 and the property transferred to it, a debt of £170,000 to the brothers Michael Barker Nairn and John Nairn was created which was to be paid off in instalments.[84] Although the brothers later agreed to write off half this total, the interest they received on the 'Property Loan' amounted to £89,707 in the period to 1909. When it was replaced by debentures, these too were held by members of the Nairn family. As well as these charges on capital, the board agreed in 1898 that £1000 be distributed to workers who had been employed by the company for a year or more, £500 be set aside to set up a pension scheme, and that the

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[80] Lenman and Donaldson.

[81] The wealth of industrialists in Victorian and Edwardian Britain has, of course, been the subject of considerable debate. For a sceptical view of their wealth, see, in particular, W.D. Rubinstein Men of Property. The Very Wealthy in Britain Since the Industrial Revolution (London, 1981). Most work on industrialists themselves, however, has stressed the scale of profits made. See M. Moss 'William Tod Lithgow - Founder of a Firm', Scottish Historical Review, 62, 1983; N. Morgan and M. Moss 'Listing the Wealthy in Scotland', Bulletin of the Institute of Historical Research, 49, 1986; H. Berghoff 'British Businessmen as Wealth-Holders, 1870-1914: A New Look', Business History, 33, 1991.

[82] One sign of the private wealth generated by industry in 19th and early 20th century Kirkcaldy was the number of major bequests made to the town by industrialists. These included schools, parks, hospitals and other public buildings. See J.Y Lockhart Kirkcaldy 1838-1938. A Century of Progress (Kirkcaldy, 1939), Chs 10, 13. For the significance of this generosity, see also R.J. Morris and J. Smyth 'Paternalism as an Employer Strategy' in J. Rubery and F. Wilkinson Employer Strategy and the Labour Market (Oxford, 1994), pp. 211-2.

[83] In 1900, for instance, the Nairn family held 89.93% of the ordinary shares and all the preference ones. SRO: BT2/2498/13.

[84] Ibid., 5.

managing directors should receive 'one third of the profit available for Dividend and Reserve after payment of 10% on the Ordinary Shares, divided amongst them in proportion to their salaries'.[85] All three schemes were to run for the next two decades, but whilst the payments to the employees and the pension fund were to stabilize in the 1900s and only rise slowly thereafter, between 1898 and 1919 a total of £555,670 was paid to the managing directors, all of whom were members of the Nairn family. The high disbursements of the company, therefore, represented a major transfer of wealth from the company to the family. In 1900, for instance, Michael Barker Nairn received £23,663 in dividends, at least a third of the £12,520 bonus to the managing directors and more than half the £2,635 interest paid on the property loan.

If the Nairn family took large sums out of the company, however, they were also prepared to put large sums in. In 1897, and again from 1902 on, an item entitled 'cash creditors' appeared in the liabilities, and by 1909 this stood at £160,993 and represented a significant proportion of the capital invested in the company.[86] The identity of these creditors is not revealed, but it seems likely that they were Michael Barker Nairn and his brother.[87] Certainly when the capital was reorganised in 1909, the sum was replaced with Nairn money. Whilst £175,000 was capitalized from the reserve fund to fund the issue of 35,000 ordinary shares to existing shareholders, a further 25,000 shares were bought by eight members of the Nairn family.[88] At the same time, the £75,000 of 5% debentures created were all acquired by the four managing directors.[89] In total, therefore, the Nairn family put £200,000 into the company in 1909 and this replaced the property loan account and the cash creditors in the balance sheet.

The adoption of limited liability is often seen as creating a separation between the financial affairs of the owners and of the business. In the case of Michael Nairn & Co. Ltd., at least, there were certain respects in which

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[85] Kirkcaldy Museum 79/1, Michael Nairn & Co. Ltd. Directors' Minute Book, 16.4.1898.
[86] 79/2, Michael Nairn & Co. Ltd. Directors' Minute Book, 14.1.1910.
[87] The term used in the balance sheet suggests that the loan was not a bank overdraft, it was not secured on the assets of the company, and there is no mention of it in the records of the company's bankers, the Bank of Scotland. It is unlikely that the wealthy Nairn family would attempt to obtain such a large unsecured loan from another source.
[88] SRO: BT2/2498/35.
[89] 79/2, 9.10.1908.

incorporation did not represent a complete break. For instance, the links with the Nairn companies in the USA, France and Germany were at least partly based on the large personal shareholdings of Michael Barker Nairn and his brother in the overseas companies.[90] It is perhaps useful to see the financial flows between family and firm as another way in which the financial affairs of the two remained linked. This linkage had, of course, been encouraged by unlimited liability, since under it any separation of family and business wealth had no legal force. Limited liability introduced a barrier which protected family wealth from business failure (and indeed made it advantageous to hold wealth outside the firm). But, in an era of low taxation, it remained possible for profits to flow from the company to the family, since, where necessary, capital for the firm could also flow in the other direction. One occasion when this occurred in Michael Nairn & Co. Ltd. was between 1901 and 1905 when, as can be seen in table 6.2, fixed assets rose from £242,398 to £358,626, whilst 'cash creditors' rose rapidly to £107,669. Furthermore, since the managing directors were aware of the extent to which new family money could be put into the company when necessary, family wealth could act as an external reserve for the company and the need for extensive internal reserves was reduced.

Evidence from the papers of another family dominated firm, the Boase Spinning Co. Ltd., also reveals a close relationship between the financial affairs of family and business. Most shares were held by family members, and so they were the main beneficiaries of the high dividends; ex-gratia payments were made at times to family directors and an annual pension was granted to the widow of the company's founder; and on at least one occasion an interest-free personal loan was granted to a family member.[91] Transfers of South African mining stock at the time of the Boer War between the company and 'syndicates' of the directors also indicate a close relationship between the family's private investments and the financial affairs of the company.[92] Yet capital also flowed in the other direction. In 1892, the share capital was increased, with family members taking up most

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[90] 79/1 10.8.1899, 8.1.1907. See also N.J. Morgan 'Sir Michael Barker Nairn', in Slaven and Checkland, pp.381-3.
[91] ULDA, 66/IX/1/1 Boase Spinning Co. Ltd. Directors' Minute Book, 29.5.1890, 10.5.1900, 30.5.1910, 8.5.1907.
[92] Ibid., 14.11.1900, 1.2.1902, 25.3.1902, 28.4.1902.

of the shares, and in 1898 further family money was used to discharge debentures held by non-family members.[93]

A further sense in which family wealth acted as a reserve for business was as a security for bank loans. This may have been the case in the Boase Spinning Co. Ltd., where the reserve account was held at £20,000 despite the growth of the business, but which enjoyed bank overdraft facilities of £150,000 by 1917.[94] The Procedure Books of the Kirkcaldy branch of the Bank of Scotland for the early twentieth century indicate that personal securities were sought for loans to both partnerships and limited companies. In April 1907, for instance, an application for an overdraft facility of £2000 was received from a Mr. Philip, sole owner of the engineering firm of William Philip & Son, offering as security his life policy. Further assurances from his 'friends' were requested. The security for the overdraft of Wm. Gibson & Co. Ltd. was the life policy of Thomas Cochrane, the main shareholder and managing director.[95] In 1919, an overdraft facility of £300,000 was granted to Robert Hutchison & Co. Ltd. by the British Linen Bank 'as security to be the joint and several guarantees of the Directors of the Company as individuals'.[96]

High profit distribution in family firms, therefore, was not simply a case of family owners putting 'a large and stable income' before 'the long-term growth of the firm'.[97] It formed part of a financial strategy in which in one important respect the firm remained an extension of the family. The family's personal wealth, itself derived from the firm, became an external reserve, now protected by limited liability, which could be drawn upon to finance expansion or as a security where necessary. As in the public companies, high profit distribution was intimately linked to a dependence on external capital. Whereas for some companies high profit distribution was a necessary condition to raise capital, for others it was possible because there was little need to hold wealth inside the firm.

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[93] Ibid., 6.6.1892, 7.3.1898, 30.7.1886.
[94] Ibid., 27.5.1912, 24.5.1915, 22.1.1917.
[95] Bank of Scotland Archive, Bank of Scotland, Procedure Book, Kirkcaldy 29.4.1907, 16.8.1925.
[96] Ibid., 6/6/33, British Linen Bank, Directors' Minute Book 9.9.1919.
[97] Chandler, p. 390.

Clearly, there were important differences between the two sets of factors which account for high profit distribution in the pre-1919 period. The difference between the financial situation of, for example, the two linoleum giants, Michael Nairn & Co. Ltd, and Barry, Ostlere and Shepherd Ltd., is best seen in terms of their control over events. Whilst, in its early years, Barrys was driven by poor results and the need for further capital, the high profit distribution of Nairns reflect the security which the personal wealth of the family gave the company. Yet it would be wrong to simplify the distinction as one between public and private companies or even between family firms and ones with dispersed ownership, or to over-emphasize the contrast between the two situations. They represented different positions on the same spectrum and, over time, it was quite possible for shifts to occur towards either extreme. Once the early difficulties had been overcome, Barrys developed into an extremely profitable enterprise. Already before 1914, some of the older established public companies operating in the Kirkcaldy area, such as the Fife Coal Co. Ltd. and William Young & Co. Ltd., had moved beyond a dependence on new capital injections. For such firms, as for Michael Nairn & Co. Ltd., raising further capital was always possible and there was no need to retain profits.[98] On the other hand, the experience of the 1880s when over-extension destroyed some of the most prominent family firms in Kirkcaldy, such as Swan Bros. and John Kay and Son, was a reminder of how insecure business wealth could be. It was precisely in such crises that resort was made to outside funding: less than a year before its collapse, John Kay and Son had attempted to raise a loan from the Bank of Scotland.[99] The number of family firms with outside capital shows how often family wealth was insufficient. As company fortunes waxed or waned, low profit retention moved from being a sign of strength to a cause of weakness or vice-versa; but in all cases, the possibility of capital from outside the company, whether this was called upon or not, meant that the need to retain profits inside the firm was reduced.

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[98] When in 1909 the Fife Coal Co. Ltd., despite high profits, chose to raise £275,625 by the sale of shares, the shares were offered to existing shareholders. In calling first on them for extra capital, a parallel can be seen to the behaviour of family firms. SRO: BT2/2826/34.
[99] Bank of Scotland Archive, Bank of Scotland, Procedure Book, Kirkcaldy, 22.4.1884.

In some senses, this strategy of low profit retention involved considerable risks. Greater internal reserves would have reduced the vulnerability of firms to unexpected developments. The Leven-based Scottish Cyanide Co. Ltd., for instance, collapsed because the South African War cut it off from its main market in the Rand goldfields.[100] One reason for such risk-taking was presumably that it represented the only way into business. The extent to which new entries came in waves will be recalled from Chapter Three, and it seems likely that in certain situations speculative risk-taking was rife. But as important as opportunities in encouraging entrepreneurs to use external finance to fund development was surely the perception that the risks involved were not limitless. The significance of the control of information has already been touched upon. The other key factor in reducing the risks involved in borrowing was the role played by informal networks. If firms relied on external rather than internal capital, much of it came from family and other personal sources. This was clearly true in family firms, where family wealth provided the first external pool of capital to be called upon. But the ties of family, of friendship, of personal networks and of local reputation were also crucial factors in explaining the ability of companies with dispersed ownership to attract outside capital. The extent to which companies with dispersed ownership raised capital locally in Fife or in nearby Edinburgh was stressed in Chapter Three, as was the use made of informal networks. The willingness of firms to rely on external funding was influenced both by their control of information and their ability to raise capital through such channels.

6.4 Strategies for Survival in the Inter-War Years

The slump of 1920/1 marked a significant break in the development of business in Fife. As was explored in the previous chapter, the issue which dominated life for most manufacturing companies in the Kirkcaldy area in the next decades was not investment, but survival. Inevitably, the changing conditions altered financial priorities. Raising new capital for investment became less important than maintaining a sufficient cash-flow to sustain existence in conditions where profits were low or non-existent. The new circumstances forced many companies to alter their financial policies. As

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[100] BT2/3180/23.

will be recalled from Chapter Three, virtually no further attempts were made to raise money from the public after 1920. Where there were no profits to distribute, a system of financing business in which high disbursements were balanced by relatively easy access to new capital was no longer possible. Low expenditure and profit retention became crucial.

How easy companies found it to make this adjustment depended on a number of factors. For some, the commitments entered into before the war or during the post-war boom made it impossible to adjust to the new economic climate. At a national level, William Beardmore & Co. Ltd., which raised large sums for post-war reconstruction only to find that falling demand meant that it could not service the debts incurred, was the most famous example.[101] It will be recalled that there was a peak in the number of firms exiting from manufacturing in the 1920s in the Kirkcaldy area. Although the evidence available is often limited, commitments entered into before the war or over-ambitious plans conceived in the post-war boom both appear to have played a part. Douglas and Grant Ltd. struggled throughout the post-1919 period under the twin burdens of the debt to Lewis Grant's Trustees and the overdraft to the Commercial Bank of Scotland, both of which dated back to the time of the company's incorporation.[102] The Fife Preserve & Confectionery Co. Ltd. was set up in 1919 to take over the business of Aiton & McConnachie, and cash was raised by the sale of 3500 £1 7.5% preference shares.[103] Three years later the company was forced into liquidation.[104] James Robertson (Leven) Ltd., ropespinners, was wound up in 1922 only two years after the issued capital of the firm had been increased from £7,000 to £15,396.[105]

Once the immediate post-war crisis had been weathered, however, most companies displayed a striking ability to survive, and the number of firms ceasing to manufacture in the Kirkcaldy area dropped to very low levels for the rest of the inter-war period. Some companies, of course, continued to make profits throughout the period and were able to continue the high

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[101] J.R. Hume and M.S. Moss Beardmore's. The History of a Scottish Industrial Giant (London, 1979), Ch. 6.
[102] ULDA 45/3/2 Douglas and Grant Papers, Financial File of Lewis C. Grant.
[103] SRO: BT2/10584/3, 8, 14, 18, 20.
[104] Ibid. 23.
[105] BT2/7892/4, 43.

dividend policies of the pre-war years. Smith, Anderson & Co. Ltd, for instance, declared profits in all but one of the inter-war years and distributed the bulk of them to shareholders into the early 1930s.[106] But for many companies, low profits or losses made a shift in the financial policies pursued crucial. This section on the inter-war years will first look at three companies to explore how their financial policies contributed to survival in this period, before considering in more general terms the ability of firms in the Kirkcaldy area to cope with a long period of low profitability.

6.4.1 'Another Poor Year': Three Firms in the 1920s and 1930s

The Leven-based animal feedstuff manufacturers, John Balfour & Co. Ltd., incorporated in 1913, is a useful example of a small family-dominated firm which had taken on a fixed charge commitment in the pre-war years - in this case 6% preference shares. As well as the ordinary shares and some of the preference ones which were taken up by the Balfour family, 631 preference shares were sold to a large number of small investors in the months after incorporation.[107] The sale of shares by prospectus required the company to adopt public status and, as a result, the Register of Companies file contains balance sheets for virtually the entire life of the company until liquidation in 1955. The balance sheets and profit figures have been summarized in table 6.6. Although, with the exception of one or two years, annual reports and profit and loss accounts are only available from 1948 on, and so no profit figures are available for the inter-war years, it seems probable that from 1920 on the company made annual losses or at best small profits. As can be seen from table 6.6, the profit and loss account was at debit in most years between 1924 to 1940, no transfers to reserves were made until 1948, and the company became increasingly dependent on its overdraft.

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[106] See table 6.9.
[107] BT2/8912/8,9,19-21.

Table 6.6: Balance Sheets and Profit and Dividend Figures, John Balfour & Co. Ltd.

(a) Liabilities

Year (to 30.6.)	Share capital	Directors' Loan	Reserves	Creditors	Bank ovr draft	Bal. pr. & loss a/c	Total liabilities
1914	14533	0	0	162	0	-173	14522
1915	15855	0	0	96	0	299	16250
1916	15855	0	0	77	0	804	16735
1917	15855	0	0	166	137	1361	17519
1918	15855	0	0	335	0	1234	17424
1919	16900	0	0	449	0	1753	19102
1920	16900	0	0	659	762	2354	20675
1921	16900	0	0	1314	0	-404	17810
1922	16900	0	0	199	0	489	17588
1923	16900	0	0	171	0	197	17268
1924	16900	0	0	144	0	-22	17022
1925	16900	0	0	99	739	-167	17571
1926	16900	0	0	601	1764	-309	18956
1927	16900	0	0	487	3994	362	21744
1928	16920	0	0	711	2081	-719	19000
1929	16920	0	0	77	0	-943	16023
1930	16920	0	0	56	2429	-1457	17948
1931	16920	0	0	50	407	-1395	15982
1932	18820	0	0	73	0	-1084	17809
1933	16920	0	0	37	3545	-1286	19216
1934	16920	0	0	37	2833	-1952	17838
1935	16920	0	0	38	3236	-1566	18628
1936	16920	0	0	38	3909	-1227	19640
1937	16920	0	0	38	5700	-821	21837
1938	16920	0	0	1496	5965	-1310	23071
1939	16920	0	0	1783	5991	-2138	22556
1940	16920	1500	0	38	4365	-970	21853
1941	16920	1500	0	38	0	31	18489
1942	16920	2500	0	93	1424	539	21476
1943	16920	2500	0	288	2098	686	22492
1944	16920	2500	0	376	2967	571	23334
1945	16920	2500	0	950	1848	1116	23334
1946	16920	2500	0	1004	4360	1966	26750
1947	16920	2500	275	1709	5886	912	28201
1948	16920	3250	483	5944	8102	920	35620
1949	16920	5250	483	9549	10344	1002	43549
1950	16920	5250	1283	9008	9708	1082	43252
1951	16920	5250	2386	8304	11059	1168	45089
1952	16920	5250	3285	2706	8180	1200	37542
1953	16920	5250	2743	5312	7437	1034	38695
1954	16920	5250	2383	6573	9595	-3803	36919

Notes: Share capital - ordinary and 6% preference shares;
other expenses includes costs of launch and various other exceptional items written off over time; cash etc. includes bank; liquidity - cash less overdraft; trading profit - after depreciation and interest, but before Directors' fees and transfers to reserves; dividends - preference only (no ordinary dividends paid in years for which data available).
Source: SRO: BT2/8912.

Table 6.6: Balance Sheets and Profit and Dividend Figures, John Balfour & Co. Ltd.

(b) Assets & Profit Figures

Year (to 30.6.)	Fixed assets	Stock	Debtors	Other exps.	Cash etc.	Total assets	Liquidity	Trading profit	Dvd.
1914	7956	1740	3906	315	604	14522	604		
1915	8112	1319	4035	200	2585	16250	2585		
1916	8640	1257	4615	0	2222	16735	2222		
1917	8591	2788	6133	0	7	17519	-130		
1918	8478	2141	6503	0	302	17424	302		
1919	8306	2337	4177	0	4282	19102	4282		
1920	9429	5365	5857	0	24	20675	-738		
1921	9441	1685	6666	0	9	17810	9	-2408	289
1922	9518	1277	4905	0	1889	17588	1889		
1923	9370	2529	5013	0	355	17268	355		
1924	9474	2058	4797	0	694	17022	694	162	321
1925	9303	2745	5516	0	6	17571	-733		
1926	9750	2719	6470	0	16	18956	-1748		
1927	10198	4535	6995	0	16	21744	-3978		
1928	9981	3542	5470	0	7	19000	-2074		
1929	9833	2260	3514	0	416	16023	416		
1930	9622	4793	3522	0	10	17948	-2419	-423	0
1931	9538	3784	2650	0	11	15982	-396		0
1932	9385	3969	2589	0	1867	17809	1867		0
1933	9886	5980	2978	360	13	19216	-3532		0
1934	10650	2854	4062	270	1	17838	-2832		0
1935	10897	3329	4188	180	32	18628	-3204		0
1936	10899	2930	5712	90	8	19640	-3901		0
1937	11307	4205	6312	0	14	21837	-5686		0
1938	11690	5311	6026	0	42	23071	-5923		0
1939	11931	3275	7179	80	90	22556	-5901		0
1940	11881	2927	6745	274	25	21853	-4340		0
1941	11932	1515	4844	150	47	18489	47	1061	0
1942	12146	4159	5151	0	21	21476	-1403	568	208
1943	13901	3065	5493	0	33	22492	-2065	414	415
1944	14019	3725	5488	0	103	23334	-2864	401	415
1945	13709	3813	5730	0	83	23334	-1765	1060	415
1946	16339	5161	5164	0	85	26750	-4275	1365	
1947	17726	5220	5194	0	61	28201	-5825		
1948	19604	9642	6310	0	65	35620	-8037	337	228
1949	22353	12217	8893	0	89	43549	-10255	910	228
1950	22433	8508	12210	0	102	43252	-9606	1208	228
1951	22355	9548	13083	0	103	45089	-10956	1816	218
1952	23250	10784	3414	0	95	37542	-8085	749	218
1953	22728	9795	6095	0	78	38695	-7359	150	0
1954	22249	12394	2141	0	135	36919	-9460	-4735	0

Balance sheet manipulation played a role in ensuring the survival of the company. Just as Michael Nairn & Co. Ltd. reduced the size of their reported profits by high depreciation charges, John Balfour & Co. Ltd. was able to improve the balance sheet by minimal depreciation. From the incorporation of the company in 1913 until its liquidation in 1955, no depreciation was made to the value of the buildings. Furthermore, from 1927 on, the rate of depreciation on machinery was reduced from the already low rate of 5% to 3%. Other items were also written down very slowly. Thus, for instance, when a new nut machine was bought in 1926, the £163 11/5 at which the old one was entered in the books was not written off as scrap immediately but appeared in the balance sheets until 1931 as 'Suspense Account - Book value of old Nut Machine replaced by new machine to be written off over 5 years'.[108] Similarly the £451 14/11 incurred in legal expenses in the Court of Session case in 1932 which was discussed in Chapter Four were written off over a period of four years (column 'other expenses' in table 6.6).[109]

Low rates of depreciation increased declared profits. Even though the figures involved were small, the effects were cumulative and, because of the poor performance of the company, could look significant in any one year. Thus, for instance, if buildings had been depreciated at 5% in 1924, the effect would have been to change the small declared trading profit of £162 into a loss of £103. This is not to suggest that the procedure was disguised. The auditor's notes annually commented that 'no depreciation has been written off the Property and Buildings Account, and only the reduced rate of 3 per cent. in place of 5 per cent. has been written off Machinery and Plant'.[110] Improving the balance sheet was presumably regarded as legitimate.

This exercise, in itself, could not have kept the company viable. When the company was discussed in Chapter Five, it was argued that strict austerity and, in particular, low investment in fixed assets were part of a strategy designed to contain losses. Although the figures for stock, for debtors, and for creditors given in table 6.6 fluctuate from year to year during the inter-

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[108] Ibid., 49.
[109] Ibid., 58. See Chapter 4, section 4.4.1.
[110] See, for instance, the 1930 balance sheet, Ibid., 49.

war years, their long-term stability adds to the impression of a company where tight financial control prevented any dramatic deterioration in company performance. Another aspect of this austerity was the company's dividend policy. Payment of preference dividends was suspended in 1927 and was not resumed until 1943, and it seems probable that no ordinary dividends were paid in any year after 1920.[111]

Even this would not have been sufficient to keep the company solvent if new money had not regularly been found. The column entitled 'liquidity' in table 6.6 gives an annual total for cash in bank and hand, less bank overdraft. As can be seen, the position of the company slowly deteriorated during the inter-war years, with surplus years becoming rarer and the size of the negative balance growing. In 1919, a further 209 £5 preference shares were sold and although the cash injection was relatively small, it helps explain the peak in that year.[112] Thereafter, the poor state of the company's finances presumably precluded the further sale of shares and the company became increasingly reliant on a bank overdraft. In terms of the company this came to be significant: in 1939, it represented 26.1% of the capital invested of the company. Yet in absolute terms the overdraft was not large, not passing £6000 in any balance sheet. By allowing the company to keep a regular if relatively small overdraft over long periods of time, the company's bankers kept it afloat through years of unprofitable trading.

The overdraft was personally guaranteed by the managing director, John Balfour and later his son, John Herbert Balfour,[113] and so the risk incurred by the bank was limited so long as the state of the company's finances did not deteriorate dramatically. Similar considerations also apply when the position of the shareholders is considered. Although the preference shareholders theoretically had the right to force the winding up of the company if dividends were passed,[114] they would have gained little by such a procedure. The balance sheet informed them that the company's assets were overvalued (the directors had proposed selling the company

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[111] Ibid., 33, 50, 71.
[112] Ibid., 28.
[113] Ibid., 54.
[114] Ibid., 5.

for as little as £4000 in 1931)[115] and that the bank had a prior claim; so long as losses were contained, there remained a chance that the company would return to profitability and pay off the arrears. The level of debts due to the company should also be noted. The bulk of this is likely to have been trade credit extended to the customers for the company's products, animal feedstuffs and fertilisers. The preference shares were predominantly held by farmers and grain merchants in east Fife, and it seems not improbable that many shareholders were customers, that they benefited from the credit terms, and would have suffered in a liquidation. Finally, for John Balfour and his son, the managing directors of the company for virtually its entire life, the business provided not only a position and a salary, but also a home, since they enjoyed the rent-free use of the house attached to the works, Elmslea.[116] Significantly, the only attempt to liquidate the company was initiated by the other major ordinary shareholder, John's daughter, Rosalind.[117]

If we turn to the experience of the Boase Spinning Co. Ltd. in the years after 1920, many of the same features occur. The company was reformed in 1920 and floated as a public company under the name of The Boase Spinning Co. (1920) Ltd., by a London-based company promoter, Sir Archibald Mitchelson. According to Lazonick, a large number of cotton firms were reconstituted at inflated prices in the aftermath of the First World War on the basis of war-time profits,[118] and the Boase Spinning Co. Ltd. appears to have followed this pattern. When a trading loss of £164,666 on the year to 31 March 1921 was declared in December of that year, it was inevitable that criticisms would surface. The Dundee Jute and Flax Workers' Guide, for instance, pointed out that the vendors had made an enormous profit on the sale of the old company, that the authorised capital of the new one had been set at £750,000, compared to the previous capital of £100,000, so that massively increased profits would be needed to pay

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[115] Ibid., 54.
[116] Ibid., 8, 79.
[117] This incident is discussed in Chapter 4, section 4.4.1.
[118] W. Lazonick 'The Cotton Industry' in B. Elbaum and W. Lazonick (eds.) The Decline of the British Economy (Oxford, 1987), p. 31.

similar dividends, and that the prospectus had given a misleading picture of the prospects for the company by only giving profits for the war years.[119]

Nevertheless, despite this inauspicious beginning and continued low profits throughout the 1920s and 1930s, when, it will be recalled, the linen industry as a whole suffered severely, the company survived. As with John Balfour & Co. Ltd. this was partly due to how the losses were handled in the balance sheets. These have been summarized in table 6.7. The company had started with a reserve fund of £235,258 and the losses of the first two years were carried directly to it, thereby reducing it to £31,029 in 1923. Although some attempt was made to build it up in the next few years, it was largely wiped out by the final settlement for Excess Profits Duty in 1927 and what was left disappeared when a loss was made in 1931.[120]

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[119] See article from August 1922 in the papers of the Boase Spinning Co. (1920) Ltd. ULDA 66/IX/4/2/6.
[120] RoC: SCO11107/35, 41.

Table 6.7:
Balance Sheets & Profit Figures, Boase Spinning Co. (1920) Ltd.
(a) Liabilities

Year (to 31.3)	Ordinary shares	Pref. shares	Reserve funds	Provisions	Advance from subs.	Creditors	Bal. pr. & loss a/c	Total liabilities
1921	280000	140000	235258	10000		231412	-182306	694364
1922	280000	140000	42952	6100		137583	-5823	588612
1923	280000	140000	31029	0		138784	22628	612441
1924	280000	140000	40000	12000	0	179867	31816	683683
1925	280000	140000	44088	52000	0	137412	17158	670658
1926	280000	140000	50000	74536	0	133615	12813	690964
1927	280000	140000	52536	0	0	169882	7511	604306
1928	280000	140000	6913	0	0	206262	2119	635294
1929	280000	140000	6913	0	0	159490	4222	590626
1930	280000	140000	6913	0	0	159288	3051	589253
1931	280000	140000	6913	0	0	125137	-33463	518587
1932	280000	140000	0	0	25	93901	-19633	494293
1933	280000	140000	0	0	3429	103544	-17185	509788
1934	280000	140000	0	0	1643	118555	-12654	527544
1935	280000	140000	0	0	144	154407	358	574909
1936	280000	140000	0	0	107	120498	17688	558292
1937	147000	140000	0	10000	0	130550	20633	448183
1938	147000	140000	7500	10000	502	166441	23034	494477
1939	147000	140000	15000	10000	1901	175172	24621	513694
1940	147000	140000	22500	10000	2768	336268	25246	683782
1941	147000	140000	30000	10000	100	321239	23273	671612
1942	147000	140000	45300	10000	89	280976	25799	649164
1943	147000	140000	50000	10000	1001	156631	29024	533656
1944	147000	140000	65000	19880	2874	195719	16151	586624
1945	147000	140000	72500	21880	11987	211915	17872	623154
1946	147000	140000	85000	24085	13200	350172	20043	779500
1947	147000	140000	100000	26238	33670	368691	25115	840714
1948	147000	140000	202031	22499	34470	264002	32616	842618
1949	147000	140000	432031	353210	35370	89159	36263	1143033
1950	147000	140000	428686	208934	9345	104417	40272	1078654
1951	196000	140000	453686	130330		291811	44207	1256034
1952	196000	140000	533686	145811		270709	44469	1330675
1953	245000	140000	595452	232227		280296	40403	1533378
1954	420000	140000	511545	191877		256102	43645	1563169
1955	420000	140000	563660	137687		373045	54452	1688844
1956	420000	140000	651938	136412		264642	60991	1673983
1957	560000	140000	527938	129265		226670	73090	1656963
1958	560000	140000	524163	104838		159000	92519	1580520
1959	560000	140000	518013	59402		85082	95079	1457576

Notes: Reserve funds - later divided between capital and revenue reserve; provisions - 1921-2, preliminary expenses, 1924-7, depreciation fund, 1937 on, preference dividend reserve fund, tax reserves, deferred repairs fund, special reserve funds; 1951 on , stock, debtors and cash are grouped together as current assets; cash - includes marketable securities; profits - declared trading profits. Source: RoC: SCO111077

Table 6.7:
Balance Sheets and Profit Figures, Boase Spinning Co. (1920) Ltd.
(b) Assets and Profit Figures.

Year to 31.3	Fixed assets	Stock	Debtors	Cash etc.	Invested in subs.	Total assets	Trading profit	Pref. divd	Ord. divd
1921	404344	207179	82658	182		694364	-164666	8	10
1922	420641	112803	54893	274		588612	2017	8	0
1923	429178	131722	51002	538		612441	22628	0	0
1924	434092	182277	66777	537		683684	30559	0	0
1925	439165	161541	69573	379		670658	10341	0	0
1926	445710	159790	85128	337		690964	1918	0	0
1927	349794	183568	70581	362		604306	2182	0	0
1928	349413	207254	78502	126		635295	9608	0	0
1929	335124	180608	74789	106		590626	17103	0	0
1930	334068	170491	71431	119	13144	589253	5829	0	0
1931	334580	118088	55841	632	9447	518587	-36515	0	0
1932	326451	106498	53697	507	7140	494293	6916	0	0
1933	322176	111390	65545	261	10416	509788	2448	0	0
1934	317678	114248	83894	302	11422	527544	4531	0	0
1935	320875	150442	85144	4443	14005	574909	13012	0	0
1936	315765	118342	105252	2739	16194	558292	17330	0	0
1937	180028	153235	89364	11316	14239	448183	18282	5	0
1938	174019	189620	89270	10321	31246	494476	20663	5	5
1939	168651	218684	91707	3754	30896	513694	20557	5	6
1940	168484	289371	202635	4456	18836	683782	19135	5	6
1941	166036	271764	197575	3957	32280	671612	15065	5	6
1942	158042	258681	167633	33445	31362	649164	16171	5	7
1943	148744	208740	128672	4821	42680	533657	17305	5	4
1944	139124	259432	150537	3315	34216	586624	17387	5	4
1945	128769	275379	169465	10540	39001	623154	18601	5	4
1946	120582	368899	234492	505	55022	779500	26256	5	5.5
1947	130852	427679	221271	542	60370	840714	34947	5	7.5
1948	118367	387166	235717	36586	64782	724251	72376	5	7.5
1949	114917	357103	217316	373528	80169	1143033	132197	5	10
1950	116527	370469	246490	291848	53320	1078654	107559	5	10
1951	122345		1071161		62528	1256034	111262	5	12
1952	145645		1090956		94074	1330675	121552	5	12
1953	141881		1218270		173227	1533378	176983	5	15
1954	164286		1220660		178223	1563619	155198	5	12.5
1955	246004		1231519		211321	1688844	112802	5	12.5
1956	299223		1152373		222387	1673983	118067	5	12.5
1957	314279		1079330		263354	1656963	89314	5	9.375
1958	318518		828448		433554	1580520	68089	5	9.375
1959	339473		925611		192492	1457576	39674	5	15

Furthermore, no standard policy on depreciation was followed. In the first years, when losses were made, assets were not depreciated and any additions were carried over directly to the balance sheet. When small profits permitted it from 1924 on, transfers to a depreciation fund were made (some before the profit was declared), but the fund was retained as a liability on the balance sheet and was not subtracted from fixed assets until 1927 (column 'provisions' in table 6.7).[121] The retention of the depreciation fund in the balance sheet was probably related to uncertainty as to the future prospects of the company: so long as it appeared as a reserve, it could be redirected to cover a shortfall, but once subtracted from the assets, it could not be recovered. In 1927, this practice was nevertheless discontinued and for the next three years round sums were taken from the appropriation account to subtract from the total for fixed assets. When a large loss was made once more in 1931, assets were again not depreciated. Thereafter, fixed assets were reduced each year by sums between £7,000 and £12,000, but depreciation was subtracted before a trading profit was declared.

The effect of these varying methods of depreciation were twofold. First, and most obviously, the cumulative effect of inadequate depreciation was the serious over-valuation of the company's fixed assets in the balance sheet. When the capital was reorganised in 1936, the chairman certified for the Court of Session that the value of the company's assets was not the book figure of £315,765, but £183,000. This was accepted and the assets were written down by £143,000.[122] Secondly, the result of the continual changes in depreciation policy was that the meaning of the figure given as trading profit or loss changed from year to year and direct comparisons over time were largely meaningless. If the company's annual depreciation had always been subtracted before a profit was declared, the effect would have been to undermine the picture of regular if modest profits presented by the company. Alternatively, in the 1930s, depreciation might have been subtracted after declaring a profit, in which case the company's poor profits would have been significantly enhanced.

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[121] Ibid., 30, 32, 33, 35.
[122] Ibid., 50, 51, 57.

Although no reason is ever given for these changes in depreciation policy, the history of the company may provide an explanation. The criticisms relating to the company's formation have already been mentioned, and in the 1920s the company may have wished to reassure shareholders and the market that the company was basically sound and performance would soon improve. Furthermore, Sir Archibald Mitchelson had underwritten the original subscription, and his various companies were left holding a significant block of shares until the early 1930s.[123] By the mid 1930s, however, the directors must have been aware that the company was over-capitalized and may have been working towards the reduction in capital proposed in 1936. This involved the cancellation of arrears amounting to £347,000 on the preference shares and reducing the issued capital of the company by marking the ordinary shares down to a twentieth of their former value.[124] The willingness of shareholders to accept such losses required their acceptance that the company was quite unable to live up to its original promises.

Balance sheet manipulation may therefore have contributed to first muting criticism of the board and later to lowering the expectations of shareholders. If so, this was significant, since the ability of the company to pass preference dividends from 1923 to 1937 clearly helped prevent money flow out of the company. Passing dividends, indeed, appears to have been sufficient to keep the company viable and solvent. Unfortunately, the balance sheet does not distinguish between bank and other creditors, but the low cash balances reported and the negative balance of creditors to debtors - unusual in terms of trade debts for a manufacturing company[125] - suggest that the company relied on bank loans. Whatever the source of this credit, there was no marked deterioration in the financial position of the company during the inter-war years. Nor was this achieved at the expense of excessive parsimony. Although the highest figures for additions to fixed assets are recorded for 1921 and 1922, a further £74,889 was spent on buildings, plant and machinery between 1923 and 1937. The company also acquired the business of the Kirkcaldy linen weavers, Thomas M'Laren & Sons in 1927, and was able to obtain an unsecured loan of £15,000 from

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[123] Ibid., 20, 42.
[124] Ibid., 46.
[125] B. Tew and R.F. Henderson Studies in Company Finance (Cambridge,1959), pp. 92-5.

the Bank of Scotland to run this business.[126] To the extent that this can be gauged from the financial information available, the indications are that the company was able to operate effectively so long as it was absolved from the need to achieve a return on the capital invested.

Whereas for John Balfour & Co. Ltd. it may have been the network of links between the company and its shareholders which made them reluctant to force the company into liquidation, in the case of the Boase Spinning Co. (1920) Ltd. it is more likely that it was the very isolation of most of the shareholders which rendered them powerless. Due to the company's launch on the London stock market, the company, alone among manufacturing companies in the Kirkcaldy area in this period, possessed a large number of small shareholders scattered throughout the United Kingdom. In 1930, for instance, the company had 245 shareholders, of whom 119 had addresses in England and 60 in Wales, where Mitchelson had extensive business interests.[127] Individually, small shareholders possessed no influence and had little choice but to hope that the reconstruction of the company would improve the prospects of obtaining some return on their investment. Once Mitchelson had succeeded in disposing of the shares he held, the only large block of shares, 31% in 1930, were held by the Boase family. If the absence of dividends must have contrasted with the pre-war years, the financial security of the family had been assured by the very advantageous settlement of 1920, and two sons of the founder, William Norman Boase and Philip Meldrum Boase, continued to play prominent roles both in the company and in public life throughout the inter-war years.[128]

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[126] Bank of Scotland Archives 1/6/4 Record of Minutes. Weekly Board. 22.11.1927.
[127] RoC: SCO11107/38. On Mitchelson, see Who Was Who, 1941-50 (London, 1952), Vol. 4, p. 802.
[128] William Norman Boase was chairman of the Scottish Flax Spinners and Manufacturers Association in the 1920s and Provost of St. Andrews from 1927 to 1936. Who Was Who 1929-40 (London, 1941), Vol. 3, p. 129.

Table 6.8: Balance Sheets and Profit Figures, Burntisland Shipbuilding Co. Ltd.

(a) Liabilities

Year (to 31.3)	Share capital	Reserve Fund	Creditors	Adv. on c./bank overdraft	Other	Bal. profit & loss a/c	Total liabilities
1919	90750		24634	87245		15991	218620
1920	150000		124867	63988		64880	403735
1921	150000	25000	112356			34980	322336
1922	150000	45000	51476			7436	253912
1923	150000	45000	24620			11511	23131
1924	150000	45000	25009			8323	228333
1925	150000	45000	4317			4727	204044
1926	150000	45000	6526	11145		-581	212090
1927	150000	45000	17902			-1092	211810
1928	150000	45000	20286	41474		5750	263510
1929	150000	45000	24002			12734	231736
1930	150000	70000	36739			11100	267839
1931	150000	70000	5871		33	12304	238208
1932	150000	70000	16524	13489	36	-2669	247380
1933	150000	70000	17880	2227	38	-1910	238235
1934	150000	60000	8735	6883	38	1701	227356
1935	150000	60000	20207		38	1585	231831
1936	150000	60000	33182		59	7814	251055
1937	150000	75000	42815		48	12719	280582
1938	150000	90000	63858		63	23502	327423
1939	150000	105000	40254		49	38847	334150
1940	150000	115000	61234		53	37925	364212
1941	150000	125000	144241		51	37115	456407
1942	150000	140000	307701		67	47221	644989
1943	150000	155000	273387		88	48223	626698
1944	150000	160000	199249		104	44409	553762
1945	150000	170000	207877		143	47387	575407
1946	150000	185000	163662	457049	170	56068	1011949
1947	150000	200000	153922	678363	10389	56597	1249271
1948	150000	220000	495379		20000	98929	984308
1949	150000	298819	565022		100000	144289	1258130
1950	150000	333819	412999		138000	188929	1223747
1951	150000	617187	759082		25000	514647	2065914

Notes: Reserve fund - includes other general reserves (capital reserve fund, EPD repayment fund); adv. on c./bank overdraft - 1919,1920, 1946 and 1947: payments received in advance for contracts, 1926, 1928, 1932 to 1934: bank overdraft; other (liabilities) - to 1947: unclaimed dividends, from 1947: provision for pension fund and tax; fixed assets - includes house property; invested in subsid. - figures in this column for 1919 and 1920 (contd. over)

Table 6.8: Balance Sheets and Profit Figures, Burntisland Shipbuilding Co. Ltd.
(b) Assets and Profits

Year to 31.3	Fixed assets	Invest. in subs.	Stocks	Debtors	Invest-ments	Bills received	Cash etc.	Total assets	Trading profit	Other income	Dvdd (%)
1919	66223	5860	42652	454			103429	218620	19941		
1920	129534	19261	92226	8110	2500		152103	403735	57414	4455	15
1921	152168		120591	26845	4000		18732	322336	66346	6142	10
1922	144523		68436	24826			16127	253912	2853	3215	0
1923	140018		65892	8798	15053		1371	231131	7681	1967	5
1924	139856		68651	3994			15832	228333	8341	1383	3
1925	139176		19969	869	7005	17039	19985	204043	4351	1693	0
1926	138566		45710	785	7005	19977	48	212090	-6876	2319	0
1927	138599		31537	2113	7005	13501	19076	211810	-1827	1818	0
1928	132350		41849	4893	7005	77308	104	263510	12685	1656	0
1929	124748		57892	2650	7005	22319	17122	231736	15573	2012	6
1930	117111		98648	3475	7115	29218	12273	267840	48361	4505	8
1931	124298		39864	1630	7205	49126	16085	238208	10269	5139	4
1932	124430		74675	4254	9376	34540	108	247380	-18598	6551	0
1933	124590		71320	4420	10482	27286	137	238235	-1209	2569	0
1934	124400		57847	3166	11591	30247	105	227356	-7847	2105	0
1935	125078		41298	4284	12700	24590	23881	231831	-1959	2294	0
1936	115265		61194	6401	11809	53840	2546	251055	19123	2785	7
1937	106610		58402	8594	12897	30475	63606	280582	41888	2702	8
1938	97167		25381	9503	39447	38119	117806	327423	58317	6265	10
1939	100613		41372	6681	39447	92255	53782	334150	64109	7713	13
1940	117693		119460	17200	31655	75500	2705	364212	47308	5682	13
1941	121367		18475	47446	21655	202500	44963	456406	82066	7880	13
1942	128904		84868	41217	171655	147500	70845	644989	58978	10745	13
1943	140221	163080	66091	23289	133655	62500	37862	626698	63696	11693	13
1944	140645	163080	77543	78916	3604	57500	32474	553762	53558	7206	13
1945	139305	163080	172768	19598	3592	52500	24564	575407	57676	2547	15
1946	132188	163080	27758	80817	28742		579364	1011949	61799	8986	20
1947	125000	163080					961191	1249271	76861	17072	20
1948	136000	163080					685228	984308	153051	13369	20
1949	132906	163080			47722		914422	128130	198429	15275	20
1950	148217	163080	247521	67110	19640		578179	1223747	255830	13923	20
1951	154527	163080			15305		1733002	2065914	334615		

(contd.) represent preliminary expenses and calls (on shares) in arrears; in 1947-49 and 1951 figures in column for cash etc. are current assets including stock and debtors; other income - includes interest, transfer fees, sale of investments; trading profit and other income - declared profits from operations and investments respectively, before depreciation, tax, transfers to reserves or dividends. All figures in £ unless otherwise stated.
Source: RoC: SCO10033; SRO: GD313/1/1.

In some respects, the third company presented, the Burntisland Shipbuilding Co. Ltd., started the inter-war period in a stronger position. Unlike John Balfour & Co. Ltd. and the Boase Spinning Co. Ltd., all its shares were ordinary ones and, since it had no other fixed interest loans, it had no commitments which affected profit distribution. Secondly, although it was only launched in 1918, the speed with which it was able to start constructing ships meant that the years from 1919 to 1921 were extraordinarily profitable, with total declared trading profits of £143,701, little short of the £150,000 issued capital of the company (see table 6.8 for balance sheet and profit figures for the company). The size of these profits meant that the company, unlike the other two, had enormous liquid assets in its early years and considerable sums were placed on short-term loans or in the bank.[129]

Campbell emphasizes the contribution of profits made during and immediately after the First World War to the ability of the North British Locomotive Co. Ltd. to survive the disastrous inter-war years.[130] For the Burntisland Shipbuilding Co. Ltd. too the cash reserves accumulated in its early years made a useful contribution to survival. An item entitled 'interest, rent and dividends' formed a regular part of the profit and loss account thereafter and although only rarely amounting to more than £6000 per annum in the inter-war years, its very regularity made it significant in a period of dramatic fluctuations in trading profits. As can be seen from table 6.8 (column 'other income'), it cancelled out the trading losses of 1933 and 1935 and overall represented 20.55% of total profits declared between 1922 and 1939 inclusive.

The Burntisland Shipbuilding Co. Ltd. also manipulated its balance sheets to conceal the size of the losses made. In 1921 - perhaps in anticipation of worse times to come - part of the profits were used to create a 'special depreciation reserve account' and this was used to justify the absence of

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[129] SRO: GD313/1/4 Burntisland Shipbuilding Co. Ltd., Agenda Book, 6.5.1919; RoC: SCO10033/26, 27.
[130] R.H. Campbell 'The North British Locomotive Company between the Wars' Business History, 20, 1978, p.210.

any depreciation in 1926 and 1927, when losses were incurred.[131] In 1928, however, with better results, depreciation was resumed and in 1930 the fund was transformed into a general reserve and raised to £70,000, from which £10,000 was taken in 1934 to bring the profit and loss account back into credit.[132] Depreciation, however, continued to vary according to the level of profits and indeed in 1930 the company ceased subtracting a fixed percentage and went over to a system of transferring round-sum figures which were related to the level of profits. Thus in 1930, £9000 was transferred from the appropriation account, but when profits were down the following year, fixed assets were only reduced by £3600. After a loss in 1932, no depreciation was carried over to the balance sheet, and it was not resumed until 1936. As before, this was justified in terms of the size of the reserve account.[133] The effect of these various transactions was consistently to improve the appearance of the balance sheet. Presumably, the result was also the over-valuation of the company's fixed assets.

Bank borrowing does not appear to have played a major role for the company. An overdraft is entered on only five of the inter-war balance sheets. In 1926 and in the early 1930s, this was clearly related to the losses incurred, but in 1928 had probably more to do with the large jump in bills receivable, since a profit was declared. Apart from the large reserves with which the company started the period, this liquidity appears to have been due to the balance of trade creditors and debtors. Peebles notes the ability of Clyde shipbuilding companies to reduce their need for bank loans by obtaining instalments on ships under construction as work progressed.[134] This also appears to have operated in Burntisland's favour. In 1919 and 1920, significant sums were entered in the balance sheets for 'instalments on post-war contracts less expenditure thereon' but even later, under less favourable conditions, trade creditors were always in excess of debtors and this was particularly true in the mid 1920s and early 1930s when the company was in greatest difficulty. In effect, the company's customers helped it survive the worst years.

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131 RoC: SCO10033/27; SRO: GD313/1/1, Burntisland Shipbuilding Co. Ltd., Minute Book, 17.8.1926.
132 SCO10033/27, 38, 45.
133 Ibid., 44.
134 H. Peebles Warshipbuilding on the Clyde. Naval Orders and the Prosperity of the Clyde Shipbuilding industry, 1889-1939 (Edinburgh, 1987), p. 129.

A further factor which helps explain the company's survival is, of course, the tight control on expenditure. The firm's low capital expenditure was discussed in the previous chapter and was also reflected in the decline in the book value of its fixed assets which can be seen in table 6.8. Despite considerable short-term fluctuation, there was no significant long-term trend in the value of stocks held. Finally, the company held dividends down: after 15% and 10% in the first two years, no dividends were paid in 9 of the 14 years to 1936 (final column, table 6.8).

Manipulating the balance sheet, relying on the credit extended by customers, cutting back on dividends and on investment - all were in one sense short-term solutions which postponed rather than solved the problem of low profitability. Yet they enabled the company to survive through a long period of depression, interrupted only by a brief profitable interlude around 1930, until rearmament and increasing trade restored demand for shipping and the company's fortunes in the late 1930s. Just as John Balfour & Co. Ltd. had found an equilibrium which permitted the company to survive despite regular losses or insignificant profits, just as the Boase Spinning Co. Ltd. could operate successfully if it paid no dividends, so too did the combination of a number of individually unimportant devices enable the Burntisland Shipbuilding Co. Ltd. to remain in business until better times returned. For all three companies, short-term expedients came to constitute a long-term strategy for survival.

6.4.2 Captive Supporters: Shareholders and Banks

As is evident from the three examples presented, the specific circumstances which enabled firms to survive in the inter-war years varied from company to company. Yet it is possible to identify a number of common factors. One was clearly war-time profits. Excess Profits Duty was meant to result in an equitable distribution of the burdens of war by relating permitted war-time profits to pre-war ones, but, as Boswell and John write, 'effective EPD rates were always geared to liberal interpretations of the pre-war "standards" and much of the EPD burden was delayed (and later remitted). . . . the official framework on prices, and profits and business income was a loose one . .

.'.[135] Many companies in the Kirkcaldy area made enormous profits during the war years which were only partly reduced by taxation. The scale of the profits made by Michael Nairn & Co. Ltd. can be seen in table 6.3, whilst the profits declared by the Boase Spinning Co. Ltd. in 1918 exceeded the combined figure for 1911 to 1914, which had been regarded at the time as good years.[136] Nevertheless, only in a few cases were these profits of continued value to the company. In some cases, as with the Boase Spinning Co. (1920) Ltd., they were eaten up by catastrophic trading during the post-war recession; in others they were invested in unsustainable expansion. Perhaps the greatest gain from war-time profits was that it enabled many firms to clear debts incurred in the pre-1914 era. Several companies used the exceptionally high profits of the war years to redeem debentures or other charges, so that in the inter-war years they were relieved from the necessity of meeting fixed-level commitments.[137]

A second factor was the control of information exercised by boards which enabled them to use financial statements to present results in a way favourable to their goals. Yet the importance of this factor should not be overstated. Although, as we have seen, at times significant in persuading shareholders to follow the proposals of the board, it at best merely postponed problems which, without a fundamental change in the company's fortunes, would not disappear.

In the longer term, more important than war-time profits or balance sheet manipulation was the ability of companies to prevent capital from flowing out of the company. This was partly due to the unremitting control of costs. The curtailment of investment was explored in the previous chapter; annual financial statements are less use for exploring what is likely to have been as tight control of running costs, such as materials and wages. Trading accounts for Douglas and Grant Ltd. for 1919 and for 1925 show expenditure on materials down from £161,128 to £86,636, wages from £38,955 to £26,445 and staff salaries from £6,025 to £4,704.[138] A letter

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[135] J. Boswell and B.R. Johns 'Patriots or Profiteers? British Businessmen and the First World War' Journal of European Economic History, 11, 1982, pp. 426-7.
[136] ULDA 66/IX/1/1 Boase Spinning Co. Ltd. Directors' Minute Book, 5.6.1918.
[137] The Fife Linoleum Co. Ltd, for instance, paid back debentures before term in 1920. SRO: BT2/5734/41, 42.
[138] ULDA 45/2/1 Douglas and Grant Ltd. Financial papers.

from the finance department to their manager in Saigon in 1925 states 'the directors decided that the policy of the company should be a very restricted one in the future . . . we are taking no more large orders and we are reducing expenses as far as possible'.[139] The destination was significant: as can be seen in table 5.7, it was the inability to control losses in the East which finally dragged the firm down. In this process of cutting costs, salaries and directors fees were not immune. Nor were, crucially, dividends. Although evidence is only available on a limited number of companies, it suggests that the three companies discussed above were not alone in passing dividends.[140]

It was possible to pass dividends because the position of shareholders in these companies was so weak. Most shareholders in this period were individuals. They possessed only restricted rights to information on the companies in which they had invested, and the information which was issued was superficial and might be massaged to present the results in a light favourable to the objectives of the board. The only power shareholders held was the ability to force a dissolution, but as the holders of the equity, in the case of ordinary shareholders, or rating immediately above them, in the case of the preference ones, they stood little chance of getting their capital back on liquidation. Nor was sale an option. Where a company paid no dividends, the demand for its shares was inevitably low. The 'transfer fees' on the transfer of shares was regularly noted in the profit and loss accounts of the Burntisland Shipbuilding Co. Ltd., and the income generated fell from £43 in 1920 to £4 in 1934 and 1935, when no dividend had been paid for four years.[141] Burntisland shares were quoted on the Edinburgh and Glasgow exchanges and the company enjoyed a high reputation; the shares in smaller, more obscure companies were presumably entirely unsaleable.

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[139] Ibid., 45/3/2 (38).

[140] Evidence on private companies is hard to come by, but the arrears on preference dividends when financial records were first registered can give an indication. In 1949, William Gibson & Co. Ltd. was in arrears on preference dividends for the years since 1934 (and no directors fees had been paid since 1938). In 1967, A.H. M'Intosh Ltd. had only paid preference dividends up to 1951. SRO: BT27467/91; RoC: SCO05853/102.

[141] SCO10033/26, 45, 46.

Companies were therefore able to limit the distribution of profits to investors without risking the withdrawal of capital. Their relationship with banks often bore a certain similarity. Banks were largely powerless as overdrafts rose and short-term loans became long-term investments. The view that banks contributed little to British industry in the inter-war years has been largely superseded. However, as Tolliday shows in his study of the steel industry, banks were not equipped or prepared to intervene directly in the affairs of a business: 'bank power was limited. The bankers lacked expert knowledge, and in a competitive banking environment they feared to interfere lest their more profitable industrial customers should move their accounts elsewhere'.[142]

The papers of the Bank of Scotland make it possible to follow this issue at a local level by looking at the relations between the bank and its industrial customers in the Kirkcaldy area. To take one example, in January 1924 the Bank of Scotland granted overdraft facilities of £5,000 for six months to William Gibson & Co. Ltd., golf club manufacturers in Kinghorn. In September, the company returned, asking for an increase to £7,500 and this was agreed on the condition that it 'be reduced by the end of the year to £3,500'.[143] In the following years, it was repeatedly renewed at £7,000 or more and by April 1928 it had risen to £9,000.[144] In February 1929, a further attempt was made to get the overdraft down: £7,000 was granted until April and £6,000 until the end of July, 'after which the overdraft to be steadily reduced until end of year'. In March 1930, it was renewed at £5,000 but by that time the following year it was again £7,500.[145] An overdraft on this scale was clearly never out of control, and, in an internal report, the local agent described the firm as a 'valuable connection'.[146] Equally, however, it was clear that although the overdraft facility was granted on a short-term basis, it had developed into a permanent loan.

Where banks did decide to force repayment, they risked not only losing part of their capital, but also taking the blame for closure. In the case of Thomas M'Laren and Sons, linen manufacturers, the company owed the Bank over

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142 S. Tolliday 'Steel and Rationalization Policies, 1918-50' in Elbaum and Lazonick, p. 95.
143 Bank of Scotland 1/6/2 Record of the Minutes Weekly Board 2.1.1924, 30.9.1924
144 1/6/3, 17.11.1925, 23.3.1926, 24.8.1926; 1/6/4: 24.4.1928
145 1/6/4, 5.2.1929, 1/6/5: 18.3.1930, 24.2.1931.
146 Ibid., Procedure Book - Kirkcaldy No. 2, 18.4.1925.

£50,000 by September 1923, well over the securities provided, and the Weekly Board sent instructions to its agents that 'the limit not to be exceeded and the account to be closely watched'.[147] No reduction was achieved over the next four years, and when the company approached the bank in September with a proposal that the debt be written down, thereby permitting a restructuring of the capital, 'the Bank declined the proposal and agreed that, although it would probably mean the winding up of the business, the debt should be called up . . .'.[148] By November, the business had been sold at a loss to the bank of over £9,000 despite the securities held. Letters from the trustees of the late James M'Laren requesting an ex gratia payment for his widow, and from Thomas Hogarth M'Laren 'appealing for an allowance to himself and his cousin, as partners in the firm, in respect of services rendered in connection with the liquidation' (both firmly declined) indicate who was held responsible for the closure.[149] Banks had little choice but to nurse business customers if they were not to be blamed for closing down manufacturing business. Furthermore, they could not risk to alienate customers. As Munn writes, 'new lending opportunities were in desperately short supply in the inter-war years, especially in Scotland'.[150]

Thus, although companies no longer actively sought outside capital as in the period before 1920, it would be wrong to claim that they were entirely independent of external assistance. On the one hand, shareholders who had previously invested capital now found themselves locked into a relationship which brought them little but which enabled firms to survive. On the other, bank lending became a crucial, if not entirely willing, form of long-term support.

A more significant element of continuity from the earlier period, however, was the continuing power exercised by boards. As we have seen, in the period before 1920 boards possessed considerable power, despite a reliance on external capital, because of their control of information and the importance of personal sources of capital. In the inter-war years, many

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147 1/6/2, 4.9.1923.
148 1/6/4, 13.9.1927.
149 Ibid., 22.11.1927, 19.6.1928, 11.9.1928.
150 C. Munn Clydesdale Bank. The First One Hundred and Fifty Years (Glasgow, 1988), p. 189.

aspects of the situation changed. Companies lost the ability to pay high dividends and attract new investment. Mediocre profits or losses made them apparently vulnerable. Yet in their weakness lay a certain power. Short of forcing a liquidation, creditors could do little; the balance of circumstances meant that such an irrevocable and profitless step was rarely taken. The financial strategies followed in the inter-war years enabled companies not only to survive years of poor trading so long as expenditure was controlled and debts were contained, but left boards in effective control of their debt-ridden enterprises.

6.5 Profit Retention for Investment in the 1940s and 1950s

From the late 1930s on, at differing rates in differing industries, demand began to pick up, and companies which for years had seen at best mediocre results, returned once again to profitability. Although in the short-term, every company for which results were found was able to benefit from war-time demand, in the longer term, as was explored in the previous chapter, participation in the post-war growth of the economy, and indeed, ultimately, survival in business, was dependent on renewed investment. Just as the changing circumstances of 1920/1 had forced companies to adjust their financial policies, so too this shift in the economic conditions required companies to change the way they managed their finances so that money for investment was made available. For many companies, this adjustment proved problematic and - as will be seen from the examples explored in this section - the late 1940s and early 1950s in particular saw many firms face financial crises as a result of their expansion.

To a certain extent these problems can be seen as a legacy of the policies followed in earlier periods. Not only did low investment mean that plant was in need of replacement - particularly after heavy war-time use - but the financial policies of the inter-war years left companies with low or non-existent reserves and pent-up demand from creditors and shareholders. The ability of companies to raise external capital after years of low or unpaid dividends is also likely to have been limited. Yet the impact of these factors was blunted by the Second World War. Just as the First World War had enabled firms to repay debts and fixed interest charges incurred before the war, so too did the Second World War improve the balance sheets of

many companies. Debts were cleared, dividends paid, and reserves restocked. Moreover, unlike the First World War, certain aspects of the war-time situation continued after the end of hostilities. Not only was demand maintained, but government pressure for 'voluntary' dividend restraint into the 1950s blunted the pressure for high profit distribution.[151]

More significant in accounting for the financial problems companies faced in the 1940s and 1950s was the changing nature of the finance used. Unlike the pre-1914 period, retained earnings were central to investment in this period. This was of course partly because rearmament and war left companies with profits to invest. Governments also encouraged profit retention by taxing it less heavily than distributed profits.[152] But changes in the supply of external capital were also important. On the one hand, the informal networks which were so important in the years before the First World War seem to have played a much smaller role, presumably because low profits in the inter-war years and high war-time taxation had reduced the amount of private wealth available for investment. A shift to other forms of investment may also have played a role.[153] On the other hand, capital from institutional sources was increasingly problematic. Here, government policy played a role. Companies anxious to raise money on the stock market needed to obtain permission from the Capital Issues Committee and continued to do so until 1959, and whilst most applications were accepted, this extra barrier probably discouraged companies from applying.[154] Banks too were restricted in their ability to lend to industry.[155] Yet the significance of these constraints should not be over-rated. A more fundamental check on companies' willingness to raise money externally appears to have been their fear of a loss of independence. Predator companies with capital to invest and an environment in which takeovers were increasingly common made the reliance on external capital far riskier than in the years before 1914.

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151 Thomas, pp. 238-241.
152 R. Whiting 'Taxation Policy' in H. Mercer, N. Rollings and J. Tomlinson (eds.) Labour Governments and Private Industry. The Experience of 1945-51 (Edinburgh, 1992).
153 Thomas, p. 144.
154 Tew and Henderson Ch. 5; P.D. Henderson 'Government and Industry' in G. Worswick and P. Ady The British Economy in the Nineteen-Fifties (Oxford, 1962), p.332-4; M. Chick 'Private Industrial Investment', in Mercer, Rollings and Tomlinson, pp. 76-7.
155 Munn, pp. 228-9; Thomas, pp. 185-9.

The key factor in understanding financial policies in this period therefore often appears to be the desire to maintain the independence of the firm. Largely unable to secure capital from informal networks, companies in the Kirkcaldy area opted to fund growth through internal capital generation. This course, however, was not without its problems and the ultimate - if sometimes delayed - consequences are an important factor in the increasing number of closures and takeovers during the 1950s. This section will look first at the experience of a number of family firms and the problems they faced when internal generation proved insufficient, before turning to the rather different dangers encountered by public companies.

6.5.1 The Price of Independence: Four Family Firms

In discussing the problems faced by family firms, John Balfour & Co. Ltd. represents one extreme. It will be recalled that this firm had achieved an equilibrium during the inter-war years which allowed it to survive a long period of poor profitability. An improvement in the company's fortunes only came with the beginning of the war. As can be seen from table 6.6, in 1940, the balance of the profit and loss account moved into credit and was to remain so until the last full year of trading. Profit and loss accounts from 1941 on show the company making regular, if small, profits. In 1942, a start was made on paying the arrears on the preference dividends (see final columns). The annual reports revealed an increasing confidence in the company's prospects: 'a substantial profit has again been earned' in 1944, 'a further increase [in sales] is confidently expected' in 1948, 'the Directors are satisfied with the progress made and consider future prospects to be good' in 1950.[156]

The company, however, continued to be in financial difficulties. Only in one year, 1941, was no overdraft recorded, and thereafter it mounted steadily, so that by 1948 it exceeded the level in any of the inter-war years and thereafter remained high. Moreover, the company borrowed elsewhere. In 1940 a 'loan from a director' of £1,500 is recorded for the first time among the liabilities. In 1942, it was raised to £2,500 (and 'a director' was made plural), in 1948 to £3,250 and in 1949 to £5,250.[157] The 1948 financial

[156] SRO: BT2/8912/73, 79, 81.
[157] Ibid., 67, 70, 79, 80.

statement also revealed that £1,000 of this was interest free.[158] The identity of the lenders is never given, but there can be little doubt that at least some of the money was put up by John Herbert Balfour and his wife, who was appointed to the board in May 1943.[159] As in an earlier period, the resources of the family were drawn on to supplement those of the firm.

This higher borrowing was clearly due to an increase in the size of the business. The figures for stocks and for fixed assets rose steadily from the early 1940s on and in 1948 the shareholders were informed that 'a Provisional Patent has been obtained for the Company's Fertiliser Process. This new plant is proving a great success'.[160] The company, however, was unable to pay for this new investment and increased turnover from the retained profits. The problem was not the scale of the disbursements. From 1945 on, the arrears were paid off at the rate of only one year at a time, so that no progress was made in reducing the total back-log. The problem was simply that the profits were too low. Sums transferred to reserves or written off the overvalued fixed assets were pitifully small and the final balance sheet listed a revenue reserve of £1,900 and a capital reserve of a mere £483 10/- - the latter the result of the sale of a car.[161]

The failure of John Balfour & Co. Ltd. was due to the failure to generate internally the wealth necessary to fund development. As in an earlier period, it was possible to raise some money from personal sources, but after 20 years of no dividends and the high taxation of the war, family money may well have been limited (when the Balfours retired in 1954, it was to a caravan park).[162] It was no longer enough to pay for expansion. Further outside investment was dependent on internal generation: with profits so low and the accumulated arrears of preference dividends to pay off, the company was not an attractive investment, and even the bank may have been getting restless as the overdraft rose. In 1953, even before the company plunged into losses, the directors reported that they were

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158 Ibid., 79.
159 There were only four directors and the two non-Balfours, both local farmers, had little involvement with the firm. Ibid., 72.
160 Ibid., 79.
161 Ibid., 79, 87.
162 Ibid., 87.

'considering future policy'.[163] Clearly, the shift from the stagnation of the inter-war years to renewed growth was impossible with the resources available to the firm.

Another family firm in which post-war expansion led to a funding crisis was Smith, Anderson & Co. Ltd. It will be recalled from Chapter Five that the company began to invest in new machinery in the 1930s after over a decade of low capital expenditure. Although only rare financial statements for this company are available, the implications for profit allocation can be followed in table 6.9 which presents a series for the profit and loss accounts derived from the company's minute book. As can be seen, the proportion of profits distributed as dividends fell after 1931, and, from 1935 on, regular transfers to the reserve account were made. The programme of capital expenditure continued through the war and culminated in the expenditure of £71,276 in the year to September 1949.[164] The reduction in the proportion of profits going on dividends and the size of the profits during the 1930s and 1940s meant that this investment could largely be met out of the company's own resources. Crisis came in 1949 when a sudden drop in prices led to a loss for the year. With the company committed to further heavy expenditure on fixed assets, it was clear that more capital was required. During the next months, attempts were made to increase the overdraft facilities granted by the company's two banks, but when conditions were attached, £60,000 was borrowed from members of the board.[165] By January 1951, after a better year in 1950, the board felt able to reject the banks' terms (they had suggested an injection of outside capital) and by November of that year the overdrafts had been entirely cleared.[166] In this case - no doubt partly because of the greater success of the firm in the inter-war years - the personal wealth of the Anderson family was sufficient to bail out the firm.

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[163] Ibid., 84.
[164] Smith, Anderson & Co. Ltd. Directors' Minute Book, 14.12.1949.
[165] Ibid., 14.12.1949, 21.12.1949, 15.2.1950, 23.5.1950.
[166] Ibid., 10.1.1950, 7.11.1951.

Table 6.9: Profit and Application Figures, Smith, Anderson & Co. Ltd.

Year (to 30/9)	Profit/loss	Dividends (£)	Ordinary dividends (%)	To/from reserves	Dividnds as % profits	Year (to 30/9)	Profit/loss	Dividends (£)	Ordinry dividends (%)	To/from reserves	Dividends as % profits
1909	6253	0	0	6000	0.00	1935	12346	8750	17.5	10867	70.87
1910	5894	0	0	6000	0.00	1936	13161	8750	17.5		66.48
1911	9141	0	0	9000	0.00	1937	21621	7500	15	10000	34.69
1912	6896	0	0	7000	0.00	1938	20573	10000	20	10000	48.61
1913	5864	0	0	6000	0.00	1939	11143	7500	15	5000	67.31
1914	6945	0	0	5000	0.00	1940	13762	7750	15.5		56.31
1915	7379	2000	4		27.10	1941	8167	6500	13	5000	79.59
1916	15001	2500	5	11000	16.67	1942	6029	6500	13		107.81
1917	29856	5000	10		16.75	1943	3100	6500	13	5000	209.68
1918	81250	12500	25	20000	15.38	1944	9549	7000	14		73.31
1919	-1187	15000	30		-1263.69	1945	9874	7000	14	5000	70.89
1920	78341	17500	35	50000	22.34	1946	7860	7500	15		95.42
1921	-15525	10000	20	-25000	-64.41	1947	20215	8000	16	10000	39.57
1922	2945	10000	20		339.56	1948	18934	8250	30	10000	43.57
1923	8208	9300	12.5		113.30	1949	-16251	0	0		0.00
1924	11651	9350	12.5	5000	80.25	1950	14733	0	0	10000	0.00
1925	12958	10650	15		82.19	1951	105509	6562	25	75000	6.22
1926	14781	13200	20		89.30	1952	-10469	3937	15		-37.61
1927	13504	15700	25		116.26	1953	131	4125	15		3148.85
1928	24220	18200	30		75.14	1954	26984	8250	15		30.57
1929	16614	20700	35		124.59	1955	27088	8985	12.5	30041	33.17
1930	12686	15600	25		122.97	1956	9147	7331	8.5		80.15
1931	11075	13000	20		117.38	1957	17342	8050	8	9627	46.42
1932	11696	10000	20		85.50	1958	18575	9200	9		49.53
1933	10597	8125	16.25		76.67	1959	35417	11025	9	35000	31.13
1934	12407	8750	17.5		70.52	1960	35552	11791	8.5		33.17

Notes: Profit figure is calculated from data in minute books and is after depreciation; dividend payments (£) in period 1923 to 1931 inclusive includes 8.5% preference dividends; preference dividends and ordinary dividends after 1948 paid net of tax, otherwise gross. All figures in £ unless otherwise stated. Source: Smith, Anderson & Co. Ltd., AGM and Directors' Minute Books.

A comparison could also be made with the company's early years, when, it will be recalled, the directors had opted not to pay any dividends until the bond on the property was paid off. The dispersal of ownership in the intervening period, however, meant that the decision to pass dividends in the interests of the financial independence of the company now meant overriding the objections of other family shareholders. At the 1950 annual general meeting two non-board members of the family were represented for the first time by a solicitor, Mr. Beveridge, and the minutes record that:

> Mr. David Beveridge, on behalf of the parties he represented, expressed concern that the company was again not paying any dividend and in view of the large Capital Expenditure being met out of Profits and the future commitments of the Company there did not seem to be much likelihood of an early resumption of Dividends. These were essential for his Clients' livelihood and he suggested the Board should endeavour to obtain more Capital to run the Business and so put it on a sounder footing.[167]

In fact, an improvement in the performance of the company over the next few years saw profits increase and dividends restored, although as can be seen from table 6.9, they remained below 50% of declared profit in most years. Instead, shareholders received shares and profits were retained: by capitalizing reserves, the capital was gradually increased from the £50,000 it had stood at since 1931 to £250,000 in 1960.[168] In Smith, Anderson & Co. Ltd., collapse had been averted. The contribution of those who had lent money in 1950 was fully recognised. At a board meeting in 1954, it was minuted that:

> . . . it was the feeling of the Meeting that the Interest received by the Loan Holders was not commensurate with the risk of this type of Speculative Investment. The original Loan Holders had saved the Company from financial disaster, and it was agreed to pay until further notice Interest at the rate of of 7% per annum less tax.[169]

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[167] Ibid., AGM Minute Book, 14.11.1950
[168] RoC: SCO07002/78,79,87, 93, 101.
[169] Smith, Anderson & Co. Ltd. Directors' Minute Book, 13.5.1954.

Although no financial records are available, a further possible outcome to a funding crisis can be followed in the directors' minute book of McDonald Engineers (Kirkcaldy) Ltd. Incorporated in 1945, the company was unusual in that it was one of the very few firms to be established in the Kirkcaldy area in the 1940s. It grew out of some engineering workshops which the Leven garage owners, T. McDonald & Sons, had opened in Kirkcaldy at the behest of the government to manufacture military supplies during the Second World War.[170] When the war ended, the new company was set up to run the engineering works. The partnership of T. McDonald & Sons retained a controlling interest in the company and members of the McDonald family dominated the board.[171]

From the beginning, the company faced problems. It had trouble identifying products for which a steady demand existed and there was a high turnover among the senior staff.[172] Another aspect of the instability was the constant financial difficulties of the company. Although in 1946, the board declared itself 'satisfied with progress generally' and a dividend of 5% was paid,[173] no dividend was paid the following year. In March 1948 the company needed a loan from the parent company after a 'substantial loss' was made.[174]

A meeting of the board in July 1948 reveals some of the background to these difficulties. The company faced choices relating both to the range of products it was going to manufacture and whether it should move to another far larger site it had been offered by the Air Ministry at Balado near Kinross.[175] Although, on this occasion, the board opted for caution on both decisions, the situation was indicative of the constant tension which existed in the company's early days between the opportunities available and the limitations imposed by the company's weak financial situation. There is evidence of further expansionary plans thereafter. Another scheme at Balado was considered in December, and a London office was rented in

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170 RoC: SCO23339/2.
171 Ibid., 11; McDonald Engineers (Kirkcaldy) Ltd. Directors' Minute Book, 6.11.45, 10.12.45. The minute book is in the possession of the company.
172 Ibid., 18.11.1946, 17.3.1947, 29.12.1947, 24.4.1948; SCO23339/22.
173 Directors' Minute Book, 18.11.46.
174 Ibid., 3.3.48; 22.12.48.
175 Ibid., 10.7.1948.

1949.[176] By this point, the company had achieved some medium-term security with a large contract to supply plumbing units to hospitals in Australia.[177] During 1950, this contract obviously created an atmosphere of great optimism. The sales agent responsible for the contract was appointed to the board, a notice was pinned up 'congratulating the workers on their success on the Australian contract', salaries were increased, and considerable sums were spent improving the factory and machinery.[178] Nevertheless, at the end of the year, the board had to report that 'the result of the year's trading was very disappointing' and further overdraft facilities had to be arranged.[179]

By 1951, the situation had reached crisis proportions. Even the normally bland minutes give some indication of the tension. At a board meeting in May, J.C. Stewart, the company's financial consultant, intervened twice during the managing director's report to 'insist that immediate steps be taken to obtain further finance from outside sources as the Bank could not continue to provide additional accommodation. Mr. Stewart advised that in the circumstances outside finance must be obtained even, as he pointed out, if it necessitated that the McDonald interests lost control of the Equity.'[180] Shortly thereafter, discussions were entered into with owners of the Inglefield group of engineering companies, and by August an agreement had been reached which gave them a controlling interest. The capital of the company was increased from £5,000 to £85,000, with most of the new shares and a controlling interest being taken up by two directors of the Inglefield board in a private capacity. They also acquired most of the newly created debentures.[181]

Some of the background to this crisis is revealed by a report to the new board on the state of the company. In the eyes of the newly appointed managing director, the extravagance and mismanagement of the McDonald family was largely to blame: 'expenditure generally was fantastic and travelling, telephone and entertaining were out of all proportion and were

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176 Ibid., 10.12.1948, 15.11.1949.
177 Ibid., 15.11.49.
178 Ibid., 25.8.49; 19.5.50; 31.8.50.
179 Ibid., 17.11.50.
180 Ibid., 15.5.51.
181 RoC: SCO23339/24 & 38; Directors' Minute Book 2.8.1951; 26.10.51.

giving a bad impression'. There were also problems with sales: 'contracts were not satisfactorily tied up', 'firm orders were not sufficient' and the 'costing system was not satisfactory'.[182] The McDonald family was subsequently ousted from the board.[183] But there can be little doubt that the company was also under-capitalized. The capital of £5,000 was clearly quite insufficient to run a business dependent on exports and the overdraft facilities extended by the bank had always been and remained crucial.[184] The importance of capital is confirmed by the history of the company in the next few years. The business lurched from crisis to crisis, with liquidation a seriously discussed option in 1954.[185] One reason for this was the constant uncertainty which surrounded the overseas contracts on which the company depended. Yet, financial bottlenecks which led to a never-ending search to cut overheads were equally important.[186] After the initial cash injection, the Inglefield group appears to have made no further investment, whilst from 1952 on, regular dividends were paid, particularly to the 'deferred' shares held by the Inglefield directors.[187]

The final family firm to be looked at, the Fife Forge Co. Ltd., succeeded in funding growth from retained earnings. The company, established in 1873 and incorporated forty years later, was owned by the related Harley and Hepburn families, who owned all but 1,000 of the 45,000 shares in 1950.[188] The company had clearly been in difficulties in the early 1930s and, in 1934, the shareholders had had to agree to the cancellation of unpaid preference dividends and a reduction in the rate of dividend on these shares from 7.5% to 5%.[189] From at least the late 1940s on, however, the company was prospering, and in 1958, when it was floated as a public company on the Edinburgh and Glasgow stock exchanges, its shares were taken up by small investors from throughout the United Kingdom.[190]

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[182] Ibid., 4.1.1952, 16.1.1952
[183] Ibid., 26.2.1952, 22.1.1953.
[184] Ibid., 12.2.1946, 15.3.1948, 17.3.1950, 4.1.1952, 16.1.1952.
[185] Ibid., 23.6.1954.
[186] Ibid., 22.5.1952, 21.7.1952, 16.3.1953, 10.4.1953, 6.10.1953
[187] Ibid., 8.12.1953, 31.8.1954.
[188] Lockhart, p. 17, RoC: SCO08553/1, 58.
[189] Ibid., 39.
[190] Ibid., 97.

The purpose of this flotation was not to raise capital. It was undertaken by the company on behalf of existing shareholders to whom the shares sold had previously been granted in a bonus issue financed out of capitalized reserves.[191] The sale of the shares, which were offered at double their nominal value, represented a considerable cash gain for existing shareholders, still family members, whilst the only direct advantage to the company was its new public status. It is possible to explore the background to this move through the papers filed when the company changed its status into a public company and the prospectus for the share issue. The figures for profits and their allocation since 1947 have been set out in table 6.10. From these it can be seen that the company made regular profits throughout the period, with very good figures in 1957 and 1958, due, according to the 1959 annual report, to 'exceptional years, when Shipbuilding was perhaps at its peak' - the shipbuilding industry was the main market for the company's marine shafting and forgings.[192] Taxation absorbed a large share of the profits, with dividends absorbing 25% or less. Although, regular transfers to reserves were made, these were never a major proportion of profits and amounted to £119,128 for the ten years to 31st December 1957.

Table 6.10: Profit and Application Figures, Fife Forge Co. Ltd.

Year (to 31.12)	Share capital	Trading profit	Dividends	Ordinary dividend (%)	Dividds as % of profits	To reserves
1948	45000	68028	13452	90	19.77	5000
1949	45000	74700	14852	100	19.88	6000
1950	45000	65351	14852	100	22.73	5000
1951	45000	70757	17614	120	24.89	5000
1952	87000	70951	17764	64	25.04	25128
1953	87000	75198	17652	30	23.47	5000
1954	87000	74677	17652	30	23.64	7000
1955	87000	82433	19091	32.5	23.16	21000
1956	129000	89974	20491	20	22.77	10000
1957	129000	137512	20997	20	15.27	30000
1958	161666	124988	20120	25	16.11	15000
1959	161666	70387	21432	25	30.44	20000

Notes: Trading profit - before depreciation, tax, directors fees, dividends and transfers to/from reserves; dividends (£) - includes 5% preference dividends. All figures in £ unless otherwise stated.

Source: RoC: SCO08553.

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[191] Ibid., 92.
[192] Ibid., 92, 98.

Profits and growth throughout the 1950s were steady rather than spectacular, and it is perhaps this which explains the company's success in avoiding a cash-flow crisis. Only £78,161 was spent on fixed assets in the ten years to 1957,[193] and the company was able to finance this from its own resources, or, at least, without entering long-term commitments. At the time of its public flotation, the prospectus stated prominently that 'the company has no mortgages, debentures or loan capital outstanding, and there are no bank overdrafts'.[194] This ability to rely on internal resources was also because the shareholders did not gain from growth in this period. Although they were allocated bonus shares financed out of capitalized reserves on three separate occasions - and sums adding up to £116,664 (little short of what was added to them) were taken from reserves to finance this - total dividends issued remained relatively constant since the dividend rate was always adjusted downward (see table 6.10).[195] Thus it was only with the sale of shares in 1958 that the shareholders really benefited from the prosperity of their company.

The sale of shares by the company in 1958 can be seen as a delayed reward to the shareholders for their restraint during the period of growth. The regularity of the bonus issues suggests that this may have been a deliberate plan by the directors on behalf of their families. Whether deliberate or not, the company was successful in expanding without recourse to outside finance. By 1958, the company was strong enough to be an attractive investment and to survive as a public company. Public status enabled future expansion. A controlling interest, however, was retained by the family.[196]

These four case-studies of family firms all show the central role played by retained earnings in funding investment in the post-war years. In three cases, the liquid assets of the company were insufficient to meet expenditure at some point in this period, and in two instances the result was respectively the closure and the takeover of the firm. Only in the case of the

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193 Ibid., 92.
194 Ibid.
195 Ibid., 68, 74, 85-87.
196 Ibid., 98.

Fife Forge Co. Ltd. did the pace of expenditure never overtake the ability of the company to meet its debts. The significance of pacing is revealed by the experience of Smith, Anderson & Co. Ltd.: what had previously been a well-managed expansion was almost derailed by an unexpected collapse in profits. Reliance on retained profits made long-term plans risky, since fluctuations in profits could upset the cash-flow. Problems similar to those encountered by these companies may lie behind the closure or takeover of a number of other old-established Kirkcaldy firms in this period.

The decision to rely on retained earnings was closely linked to the issue of firm independence. The crises faced by two of the firms presented themselves as crises of control, and the case of John Balfour & Co. Ltd. was only different because no outside investor appeared, presumably because the firm was too decrepit. Only Smith, Anderson & Co. Ltd. - and then only in an emergency - was able to draw on family wealth, elsewhere the choice was between outside capital and the loss of control or the constraints imposed by internal growth. In the Fife Forge Co. Ltd., this meant delayed rewards for family shareholders and perhaps slower growth than if more capital had been available. Once outside capital was accepted in McDonald Engineers (Kirkcaldy) Ltd., the McDonald family lost their links to their firm. The choice facing the owners of family firms was often stark.

6. 5.2 The Threat of Takeover: Three Public Companies

As has been argued in previous chapters, the retention of control was as important to the boards of public companies in the Kirkcaldy area as to those of private ones. In coping with the threat which external capital represented, the situation they faced was in one sense more acute than in family firms: since their shares were dispersed and trade in them was not controlled, they had no means of preventing a hostile takeover bid. This made growth funded by retained profits even more risky than for family firms: not only did they face the threat that a sudden drop in earnings would cause a cash-flow crisis, but the opposite possibility, that profits would not be invested fast enough and that reserves would build up, also represented danger, since it made the company attractive to predators. This section will look at how this situation affected two companies and how the dependence on large-scale external funding meant that it was avoided by a third one.

The first case under consideration, the Burntisland Shipbuilding Co. Ltd, can be treated briefly, since it was extensively considered in the previous chapter. As can be seen from table 6.8, profits rose from 1936 on and stayed high thereafter, increasing rapidly in the late 1940s. These profits were achieved despite considerable expenditure on fixed assets during the war itself and after 1948. Although a gap in the records of the company mean that there is little information on the immediate post-war period, it is possible that further expenditure was delayed by problems in obtaining materials and government permission. The yard - never large - was also working to capacity and this made building work difficult.[197] Whatever the reason, the company was quite unable to use the profits amassed. With big increases in dividends impossible for political reasons, the liquid reserves of the company mounted. As was discussed in the previous chapter, the result was a takeover bid in 1951. Thereafter, large dividends were paid to the parent company, draining off the excess liquid assets, but leaving the company, as we have seen, dependent on the holding company for investment funds. Ultimately, as was explained in Chapter Five, the company was unable to keep up with changing demand. Although it is impossible to know if greater investment would have enabled it to solve these problems, inadequate funding was seen as the problem at the time. In this sense, the takeover in 1951 can be seen as a major factor in the demise of the company.[198]

Fears of a similar fate appear to have had a major influence on the development of the Boase Spinning Co. Ltd. Here success was slower. Although the restructuring of the capital in 1936, referred to in the previous section, was a turning point in the fortunes of the company, and thereafter profits were made and dividends paid every year, profits remained modest until the end of the war. As can be seen in table 6.7, they increased rapidly thereafter reaching £132,197 in 1949 and remaining at a high level until the end of the 1950s.

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[197] The Directors' Minute Book for the period from November 1949 on reveal considerable delays between the planning and implementation of modernization work. See, for instance, SRO: GD313/1/2 Burntisland Shipbuilding Co. Ltd. Directors' Minute Book, 1.9.1950, 5.10.1951, 29.9.1953. For space constraints at the Burntisland yard, see W. Ayre A Shipbuilders' Yesterdays (Aberdour, 1968), pp. 134-5.

[198] See Chapter 5, section 5.3.1.

Disposing of these profits appears to have been a major concern of the board. As on previous occasions, balance sheet presentation is revealing. During the 1940s, the number of reserves and provisions which appeared on the balance sheet rose. In addition to the reserve fund and the reserve for preference dividends, both created at the point when the capital was restructured, a provision for deferred repairs and an ordinary dividend reserve were created in 1944, a capital reserve in 1948, and reserves for tax and a pension fund in 1949. Some of these funds were clearly created to meet very specific remits. Yet the total amount held in reserves and provisions rose from £60,000 in 1943 to £637,620 in 1950, in a period when the figure for fixed assets fell from £148,744 to £116,527.[199] On no less than four occasions during the 1950s, sums taken from reserves were capitalized and distributed as shares to existing shareholders, but the reserves remained high.[200] The rise in liquid assets (including tax certificates) up to 1950 can also be seen in table 6.7, although changes in balance sheet presentation make it impossible to follow this thereafter. There can be little doubt that the growing number and size of the funds reflected the company's inability to use the profits generated.

A number of factors explain this apparent inability to invest more. Firstly, the directors seem to have genuinely distrusted the boom conditions and in particular the high prices of raw materials. In 1948, they recalled past experience: 'in the latter part of 1920, Shareholders will remember that the sudden and calamitous fall in commodity prices involved the Company in a heavy loss'.[201] Memories of the disruption of trade routes and the impact of tariff barriers seem also to have been strong.[202] Secondly, the emphasis on raw materials reflected a weakness of which the board cannot but have been aware: the company remained a weaver of flax (described as the 'most important raw material used by the Company' in 1956)[203] and jute. Yet it was clear that the future of these industries in the United Kingdom was limited. Jute, in particular, existed behind the protection of Jute Control, a temporary government measure to give the industry a breathing

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199 RoC: SCO11107/68, 70, 76, 80, 83.
200 Ibid., 81, 86, 91,100.
201 Ibid., 76.
202 Ibid., 83, 85, 88, 90.
203 Ibid., 96.

space to reorganise itself before the threat of cheap imports from the Indian sub-continent.[204] Howe explores how the Dundee jute manufacturers moved into tufted carpets and polypropylene, whilst Whatley describes the background to diversification in one of the larger companies, Don Bros, Buist & Co. Ltd.[205]

The future direction of the industry, however, was not apparent in the immediate post-war years, when a return to the conditions of the 1930s was widely expected and new products were not yet identified. There therefore followed a period - a time of 'study and experiment' according to a contemporary[206] - in which high profits were made, but there was no obvious outlet for the accumulated cash reserves. Despite regular investment to keep the machinery of the company up-to-date, large liquid reserves built up.[207] This clearly represented a potential threat for a public company, and the board attempted to safeguard themselves against this by distributing as much to shareholders as they felt politically possible. In 1948, 'in deference to the voluntary agreement between the Federation of British Industry and Her Majesty's Government', the ordinary dividend was held although 'higher dividends would be justified'.[208] The following year it was raised from 7.5% to 10% and this was explained in terms of the long period in which no dividends had been paid.[209] In 1952, the shareholders were warned that 'it must not be assumed that the trading results for the current year will justify the maintenance of the present rate of the Ordinary Dividends on the increased Ordinary Share Capital'; in 1953, they rose from 12% to 15%.[210] Finally, in 1958, the annual report announced:

> . . . your directors cannot forsee a time in the reasonably near future when the whole of the present surplus liquid funds of the Company will be required in the manufacturing side on the business. They are therefore giving thought to the question of returning to Shareholders, by way of a repayment of Capital,

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[204] W.S. Howe The Dundee Textiles Industry, 1960-77. Decline and Diversification (Aberdeen, 1982), pp. 17-22.
[205] Ibid., esp. pp. 24-64; C. Whatley Onwards from Osnaburgs. The Rise and Progress of a Scottish Textile Company. Don and Low of Forfar, 1792-1992 (Edinburgh, 1992), pp. 215-30.
[206] Quoted in Whatley, p. 196.
[207] RoC: SCO11107/95, 110, 115.
[208] Ibid, 76
[209] Ibid., 80.
[210] Ibid., 88, 90.

> that part of the liquid funds which they consider to be in excess of the needs of the Group.[211]

This was achieved the following year when the preference shares were repaid, 3/- was returned on each ordinary share, and reserves were capitalized to restore their value.[212] The timing of this reduction in capital was unfortunate. As can be seen from table 6.7, profits fell rapidly after 1956. Moreover, in the early 1960s, the jute industry shifted rapidly first into tufted carpets and later into polypropylene. The Boase Spinning Co. Ltd. was too small and did not have the resources to make this shift and in 1963 was absorbed into a larger combine.[213]

If the previous two examples illustrate the dangers of retained profits, the final case-study, Henry Balfour & Co. Ltd., shows that there were advantages in financing expansion through borrowing. It will be recalled from the previous chapter that the company embarked on a policy of expansion and diversification in the 1930s. Table 6.11 sets out some data from the balance sheets and profit and loss accounts of the company. From these it can be seen that the expansion of the company was not undertaken from a position of strength. Although profit figures only start in 1930, the size of the bank overdraft in the mid 1920s suggest that profits were poor. They were again low in 1931 and 1932, and in 1933 a loss was recorded. The decline in the figures for fixed assets between 1920 and 1933 also contrasts with the earlier increases noted in table 6.5. Correspondence relating to the share swap with Ernest Scott (London) Ltd. in 1934 indicates that both companies were aware that their recent performance was far from impressive.[214]

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[211] Ibid., 105.
[212] Ibid., 106.
[213] Ibid., 131; Howe p. 41.
[214] SRO: GD 410/184 Henry Balfour & Co. Ltd. miscellaneous papers. See Chapter 5, section 5.3.3 for further details on this company.

Table 6.11: Some Balance Sheet and Profit Figures, Henry Balfour & Co. Ltd.

Year (31.10)	Share capital	Reserve fund	Bank overdraft	Fixed assets	Liquid assets	Total assets	Trading profit	Ordinary dividend
1923	43930	7000		48682	3127	71972		
1924	43930	7000	1832	48208	396	73776		
1925	43930	7000	8330	55005	617	73015		
1926	48730	7000	11071	54078	621	75474		
1927	48730	7000	3535	47287	611	72045		
1928	48730	7000		45417	6508	70422		
1929	48730	10000		45715	8729	72573		2.5
1930	48730	10000		42214	13604	70743	7047	5
1931	48730	10000		37052	14753	70266	8517	5
1932	48730	10000		37281	13932	67122	2510	2.5
1933	48730	10000		35714	9197	64913	1182	0
1934	58730	10000	10647	39089	541	100453	6491	2.5
1935	58730	12500	8950	42985	513	97822	10328	5
1936	58730	16500	22233	56275	520	127851	13424	7.5
1937	58730	20500	27274	60859	812	141013	14802	7.5
1938	58730	24500	20061	63220	806	140027	22507	12.5
1939	58730	28500	10356	77048	860	160757	28260	12.5
1940	58730	32500	74725	86284	810	257113	24534	12.5
1941	70000	34500	114842	96369	836	334812	25302	12.5
1942	70000	36000	65000	107669	2624	325751	26106	12.5
1943	70000	37500	15000	115039	8670	33430	68255	12.5
1944	70000	49000	60102	115351	1975	403291	94637	15
1945	80000	50000	149537	107133	1426	533338	56437	12.5
1946	80000	50000	29915	116584	1496	503091	34495	12.5

Notes: Share capital - includes both ordinary and preference shares; liquid assets - includes cash in hand and bank and marketable investments; trading profit - before depreciation, tax, directors fees and transfers to reserves. All figures in £ unless otherwise stated. Note that this table does not include full balance sheet figures.
Source: SRO: GD410/185-201.

Henry Balfour & Co. Ltd. did, however, possess one asset in the early 1930s and this was the size of its liquid reserves. Even after the loss of 1933, the company possessed £9,097 in cash and investments. When the agreement with Pfaudler Corporation to set up Enamelled Metal Products (1933) Ltd. was reached, the British company was largely able to finance its share of the start-up capital from its own resources. Although no information on this period other than the financial statements is available, it is possible that the build-up of the company's liquid assets was the result of a deliberate policy. Their rise corresponds to the period when Alexander Hutchison and William Lindsay Burns were appointed chairman and managing director respectively: both men were closely identified with the successful diversification of the firm.[215] It is not inconceivable that the accumulation of a 'war-chest' - which the balance sheet specifies was held in marketable stock - was the initial stage in such a plan. Such a step would have possessed a considerable logic. The poor performance of the company over the previous decade meant that, unlike earlier, it could no longer expect new outside investment to fund development. To expand into new fields, the company needed first to build up its own internal resources.

However, if internal funding provided the initial impetus, the expansion of the next years was based on bank loans. As can be seen from table 6.11, from 1934 on, expenditure on buildings and on plant and machinery in Henry Balfour & Co. Ltd. rose dramatically, whilst in E.M.P. it was consistently high. As was discussed in Chapter Five, however, diversification took time to work and profits remained modest throughout the 1930s. Retained earnings were, therefore, of limited significance despite slow dividend growth. Bank borrowing was also essential: the overdraft with the Royal Bank of Scotland rose from £10,647 in 1934 to £27,242 in 1934 and £114,842 in 1941, by which point it greatly exceeded the share capital in the firm. E.M.P. also borrowed extensively from the Royal Bank of Scotland.

The profits of the war and post-war years transformed the situation. Despite raising ordinary dividends to 12.5%, the proportion of earnings retained

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[215] GD 410/251/14.

grew and the reserve fund was built up to £50,000 at the end of the war. Although the overdraft remained high, it declined as a proportion of the total capital invested. In 1951, when the company turned to the public to raise £210,000 in convertible loan stock, net assets (total assets less current liabilities) were estimated at £168,484.[216] The first goal listed in the 1951 prospectus was to repay £125,000 from the overdraft.[217] During the 1950s, the company obtained a stock exchange quotation and the loan stock was converted into shares.[218] Henry Balfour & Co. Ltd., as in the pre-1914 period, was again able to raise money from the public. In contrast to the earlier period, however, this was not at the price of low retained earnings. In 1960, for instance, when the consolidated balance sheets of the company show an issued share capital of £275,000 and general reserves of £485,290, group net profits of £94,117 were earned, of which only £28,444 were paid out as dividends.[219]

The issue of control was, therefore, central to the development of public companies as well as family firms. The reserves built up by the Burntisland Shipbuilding Co. Ltd. led to its takeover and contributed to its long-term demise. Fears of a similar fate led the directors of the Boase Spinning Co. Ltd. to disburse profits for which they could see no immediate need. If the route taken by Henry Balfour & Co. Ltd. protected it during its period of expansion, once the success of the company was recognised, it too was the victim of a takeover bid.[220] As with the family firms, locally-based public companies in the Kirkcaldy area found expansion on the basis of retained earnings difficult in the post-war years.

Lewchuk suggests that the difficulties faced by so many British firms in the 1960s can be seen partly as the legacy of past financial policies. Since British companies always depended to a greater extent on external finance, they had far less incentive to grow than American ones, which needed expansion to generate the funds for investment. By the 1960s, 'the growing size differential was to have serious implications for the ability of British firms

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216 RoC: SCO03138/109.
217 Ibid.
218 SCO03138/120, 137
219 SCO03138/149.
220 The company was taken over in 1963 by its American partner, Pfaudler Permutit Inc..

to survive'.[221] Lewchuk's conclusions are based on research in the car industry, in which size was clearly fundamental, yet even among the rather smaller companies studied here, this argument has a certain validity. The problems companies faced in accumulating the reserves to fund expansion, and the need itself for large-scale investment, can be seen as the result of policies in the two earlier periods discussed in this chapter - the period before the First World War when expansion had been funded with external capital and reserves were small, and the inter-war period, when companies run down their liquid assets and held down investment in order to survive.

It is certainly possible that if companies had concentrated on building up reserves in the pre-1914 period, they would have withstood the crises of the inter-war years better and have entered the period of expansion in a stronger position. However, what stands out from this discussion of companies in the post-war years is the issue of control. For most of the companies studied, the problem was not so much access to capital as its price. As in the pre-1914 period, expansion on the basis of external capital was possible, but boards were now reluctant, because, in contrast to the earlier period, they feared that it would mean a loss of independence. The issue for most firms was not the supply of capital, but its nature. External capital to fund expansion was available, but was feared as a threat to control.

6.6 Conclusion

As we have seen, it is possible to distinguish a succession of phases in the financial policies pursued by firms in the Kirkcaldy area, in particular in relation to the sources of capital and the application of earnings. In a first phase, which lasted until around 1920 and the end of the post-war boom, high profit distribution needs to be understood in the context of external finance for industry. The availability of capital from outwith businesses produced a range of strategies in which high profit distribution was the uniting theme. At one extreme were family firms, where the family resources behind the company, themselves the result of high profit

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[221] Lewchuk, p. 20.

distribution, meant that there was no need to retain large profits in the business. At the other, were limited liability companies set up to raise capital for a new venture by public subscription and committed to using a large proportion of profits to meeting debt and dividend obligations. In between were family firms where family resources had proved insufficient and money was borrowed from banks or raised by the sale of shares or debentures, and public companies, where profits had reduced the burden of debt, but high dividends could be maintained, since easy access to further external finance meant there was no need to hoard resources. Thus profit distribution reflected necessity in some cases and opportunity in others, with successful or poor results shifting companies in the direction of one pole or the other.

The strategies followed in the changed economic environment of the inter-war years, were in one sense dramatically different. High profit distribution gave way to tight financial restrictions as companies reduced expenditure and passed dividends. With low profits and little reason to invest, companies had neither the need nor the opportunity to raise money from the public. External finance in terms of bank lending remained an important prop. Businesses cobbled together long-term strategies for survival from short-term measures, such as balance sheet manipulation, relying on overdrafts, and passing dividends. The third phase, starting in the late 1930s as economic growth once again created opportunities for expansion, was different from both the earlier ones. In contrast to the inter-war years, new capital for investment was needed, but, unlike the pre-1914 era, it was not external but internal resources which were crucial. The increased profits of the war years, government pressure to restrict dividend payments, and the risks involved in raising money externally made reliance on retained profits the preferred option.

It is not, of course, claimed that every company in the Kirkcaldy area passed through each of these three phases, or that the timing was the same in each case. For some businesses, adequate profits in the inter-war years meant that dividends could be maintained even if no new capital was sought. For others, as we have seen in the case of Henry Balfour & Co. Ltd., the renewed search for capital to invest began much earlier than others. But companies did pass through a succession of phases. Whereas before the

First World War the Fife Linoleum Co. Ltd. had twice turned to the public to raise money for expansion, in the 1920s it relied on retained profits. The contrast between the low profits, low investment and low dividends of the Burntisland Shipbuilding Co. Ltd. in the inter-war years and its wartime and post-war experience, could not be more marked. For the Boase Spinning Co. Ltd., the high profits and dividends of the pre-1919 era were followed by austerity and passed dividends in the inter-war years and the internal accumulation of reserves after 1945. The contrast was not simply between different companies or industries, but reflected changing strategies as companies responded to the economic climate.

The common theme to these changing responses was surely the desire of businessmen to both exploit the opportunities which arose and at the same time retain control of their businesses. The rapidly changing economic environment of the first half of the twentieth century created a bewildering variety of opportunities and threats. Furthermore, opportunities created new threats and threats concealed opportunities. The high profits most companies made during the two world wars made it possible to divest themselves of debts or build up reserves for the future; at the same time, firms ran the risk of borrowing beyond their capacity to repay or embarking on unsustainable ventures. Retained profits in the post-1945 era gave companies an opportunity to expand without recourse to outside funding, but also made some of them vulnerable to external predators.

Companies needed to devise strategies which enabled them to use the opportunities without succumbing to the risks. In the pre-1914 years, the availability of outside capital created opportunities to enter business or expand existing firms for ambitious entrepreneurs without adequate resources of their own. For established companies, good profits could mean high disbursements, often to members of an owning family. Yet in both cases, risks existed. In the first case, the external commitments taken on could prove too great. In the second, family resources might be inadequate when suddenly called upon. In the inter-war years, the opportunities diminished, but so too did the risks. As was seen in the previous chapter, there was little incentive to invest. If costs could be controlled, however, companies were able to survive long periods of low or non-existent profits and passed dividends. Later, growth again created

opportunities and retained profits gave many companies the chance to participate. Yet here too there were risks. Where internally generated wealth was relied upon to fund investment, a hiccup could cause a serious cash-flow crisis. Where profits were amassed more rapidly than could be used, the company might become the victim of a takeover bid.

The level of risk was also related to the source of capital. The use of retained profits or investment by an owning family was, in most cases, less risky than a reliance on a bank overdraft or the money market. The type of capital raised, whether debentures, preference or ordinary shares, also involved varying degrees of risk and more reputable firms were able to opt for a less risky capital mix than those offering a less attractive investment. The commitments taken on by the board of Barry, Ostlere and Shepherd were significantly smaller than those of their equivalents in the Scottish Cyanide Co. Ltd., whilst both took risks of a different order to those faced by the directors of Michael Nairn & Co. Ltd. Yet, in certain situations the balance of risk between different types of finance was not as straightforward as it seems. Disgruntled family members wielded more influence than dispersed individual shareholders. In the inter-war years, a dependence on external finance, whether share capital or bank overdraft, did not threaten the future of unprofitable firms so long as losses were kept under control. Too great liquidity led to the takeover of the Burntisland Shipbuilding Co. Ltd., and was seen as a threat by the directors of the Boase Spinning Co. Ltd., whilst Henry Balfour & Co. Ltd. grew large on borrowed money.

The ways firms raised capital or distributed profits should be seen as deliberate responses to this changing environment of opportunity and threat. Where opportunities were seen, family money was invested, outside capital borrowed or profits ploughed back in. At other times, disbursements rose, since the firm had no use for the capital. When losses threatened to engulf the firm, however, dividends were cut back and extra resources found. As the perceived situation changed, so too did the policies of boards. The directors of Smith, Anderson & Co. Ltd. at first did without dividends to clear their company of debt, then disbursed profits when no opportunities for investment were seen, and finally cut back on dividends and ploughed money back into the company to fund expansion. The board

of Henry Balfour & Co. Ltd., which had previously kept the company largely free of debt, embarked on a strategy of growth financed by external capital - and the bank overdraft mushroomed.

Just as the production policies of companies only make sense if companies are seen as facing a choice between growth and stability in which both options carried risks as well as opportunities, their financial strategies can only be understood as a balance between the twin goals of profit and survival. The decision to raise capital by committing future profits, to pass dividends to preserve the firm, to retain profits to fund growth or to distribute them to prevent takeover, were all made in an environment where the retention of control was important. For family firms, survival might mean the survival of family ownership: in 1951, the directors of Smith, Anderson & Co. Ltd. equated the loss of independence with defeat. Yet the policies of public companies such as the Boase Spinning Co. Ltd. or the Burntisland Shipbuilding Co. Ltd. were also designed to preserve the independence of the board. Even the acceptance of the takeover bid in 1951 by the latter firm seems to have been premised on Sir Wilfrid Ayre's assessment that he would retain effective control of the company - an assessment which proved largely correct during his own lifetime.

But control was not only a goal, it was also a tool. The ability of companies to adjust strategies to meet new demands and survive in changing conditions was partly due to a world which gave boards very great power. The advantages of limited liability were explored in Chapter Four. To these must be added further benefits conferred by the environment in which they operated. Low taxation permitted the easy transfer of capital from firm to family and the creation of large private fortunes which acted as security for business. Lax legislation on financial reporting gave businessmen great control over information relating to their firms. The Macmillan Committee saw the information available to investors as a serious weakness of the British financial system and Kennedy argues that it acted as a disincentive to home investment.[222] The corollary is, of course, that where capital was

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[222] Macmillan Committee, pp. 166-8; W.P. Kennedy 'Institutional Response to Economic Growth: Capital Markets in Britain to 1914' in L. Hannah (ed.) Management Strategy and Business Development (London, 1976), pp. 174-6.

attracted - and the evidence is that some firms at least were successful in this - power lay with boards.

The growing number of company closures and takeovers in the 1950s is related to changes in this environment which made it less favourable for small and medium-sized family and other locally-owned enterprises and their way of conducting business. Successive Company Acts tightened up reporting procedures and reduced the discretion which boards could exercise in how results were presented. Changes in taxation policy and wealth-holding reduced the ability of firms to rely on family wealth and personal ties. Personal repute came to matter less than company performance in raising capital. The growing significance of institutional investors and the creation of a takeover market for industrial shares altered the balance between directors and shareholders. By the post-war years, changes in the legislative and economic environment were undermining the absolute sovereignty of boards and the informal networks which provided the foundations on which business survival strategies had for so long been successfully built.

The result was that as the post-war boom increased the need for capital, firms were for the first time forced into a situation in which the goals of profit and survival were irreconcilable. In the years before 1920, the strength of informal sources and their monopoly of information allowed boards to raise capital externally without, usually, losing control of their firms. In the inter-war years, the very financial weakness of their firms created a relationship between boards, on the one hand, and shareholders, banks and other creditors, on the other, in which boards retained considerable power. The situation after the Second World War was different. For family firms, control could be maintained so long as sufficient profits were generated to fund expansion, but if profits were too low or too irregular and external capital had to be sought, the price was likely to be a loss of independence. For public companies, even profit retention was a threat, since it made them vulnerable to hostile takeover bids. In these circumstances, successful expansion depended upon a careful balancing of profits and investment - where this failed, closure or takeover has been the result.

CHAPTER 7. CONCLUSION

This thesis has sought to explain the economic development of one region of Scotland in the first sixty years of the twentieth century by examining the manufacturing and coal-mining companies active in the area. The Introduction explored the problem. It pointed to the significant shift from an economy dominated by locally-owned enterprises, to one where external control was common. It suggested that explanations for regional decline in Britain in the twentieth century based on either the supposedly inevitable decline of a narrow range of staple industries or on the increasing mobility of capital, ignored both the range of regional specializations and the local ownership of industry. In areas such as the district around the burgh of Kirkcaldy, industry was both varied and locally-based. Into the post-1945 years, the development of the area was shaped by local entrepreneurs. This thesis explored how this system survived and why it eventually collapsed. In this, the thesis falls in two parts. At its simplest, it might be said that the first part looked at what happened, whilst the second part tried to explain why. Chapters Two and Three explored the structure of business in the area and how this changed over time; Chapters Four to Six sought to explain this development by looking at business decisions and policies.

Chapter Two explained how it was possible to map the structure of manufacturing and coal-mining industry in early twentieth-century Scotland using, in particular, two sources: valuation rolls and the Register of Company files. It argued that an accurate list of industrial enterprises could be derived from the valuation rolls and that the rateable values gave a rough indication of the relative value of properties, whilst the survival of virtually all the Register of Company files for Scottish-registered companies made it possible to explore the ownership and boards of the growing number of enterprises which were limited companies. Chapter Three used the methods outlined in Chapter Two to explore the economy of the Kirkcaldy area between the turn of the century and the 1960s and concentrated in particular on entry and exit rates from business, the age of enterprises, the distribution of industrial property between industries and between firms, and the ownership of industry.

Two issues in particular emerged from this analysis. First, was the importance of chronology. Three periods with markedly different characteristics were distinguished. In the first of these, which lasted into the immediate aftermath of the First World War, most companies continued to be locally and family owned. The turnover in the stock of companies was relatively high, although some indications were found that in the burgh of Kirkcaldy itself both entry and exit rates were dropping after the turn of the century. The advent of limited liability was identified as an important feature of the period, as the opportunities it offered for raising capital were taken up by a wide range of firms. Finally, it was noted that there had been a move towards industrial concentration, but only in the two most dynamic industries in the area, coal and linoleum.

In the second period, lasting from the post-war slump of 1920 into the mid-1950s, the most prominent feature was the relative stability in the stock of enterprises. Entry and exit rates fell and the average age of enterprises rose. By 1950, a majority of the larger enterprises were over 50 years old. One consequence of this stability was that there was little change in the range of industries in the area. Another was continuity in ownership patterns: family and local shareholding remaining widespread, even if ownership was no longer quite as concentrated as in the earlier period. Only the distribution of property changed markedly, as the largest companies increased their share of total manufacturing property. Yet in one sense there was stability here too: membership of the elite of large enterprises remained largely constant.

If stability was the hallmark of the second period, the third period was very different. From the mid-1950s on, the business structure of industry altered dramatically. Most obvious was change in the stock of enterprises. Exit and entry rates rose, so that the proportion of old-established companies declined rapidly. Many of the new enterprises were also in different industries from those which closed and so the industrial structure was transformed. Of the incoming enterprises, few of the larger ones were locally owned and the significance of local and family ownership in the economy declined. This trend was reinforced by takeovers which transferred the ultimate ownership of some of the surviving enterprises out

of the area. Finally, an upsurge in the number of small firms and new launches had the effect of reversing the trend towards concentration.

The second issue to become apparent was the key role played by exit and entry rates in explaining developments in the business structure of the Kirkcaldy area. Most of the other trends noted - in industrial diversification or concentration, for instance, or in terms of changing patterns of ownership - can be traced back to changes in these two rates. Thus the stability of the middle period was primarily the result of the very low turnover in the stock of companies, whilst the restructuring of the economy in the late 1950s and 1960s was largely the result of the replacement of old-established locally-based firms by incoming companies in new industries. Chapter Three concluded by pointing out that although the exit and entry rates moved roughly in parallel, the nature of the relationship between the two of them - or indeed the existence of a link - could not be assumed. Theoretically, both rates are equally worthy of study. For the historian, however, interested in the record of what actually happened, exit rates are a more fruitful subject of research than entry ones, since, for much of the period, the key question concerning entry rates is why something did not happen - why more firms did not start manufacturing in the Kirkcaldy area. This thesis has therefore concentrated on exit rates in its exploration of change in the structure of business in the Kirkcaldy area over time.

The consequence of this chronology and the changing rates of entry and exit was that, into the 1950s, the economy of the Kirkcaldy area was largely dominated by local capitalism - by entrepreneurs or potential entrepreneurs based in Fife or in nearby Edinburgh and using capital from the same areas. On the one hand, because of the high survival rates in the period between 1920 and the mid-1950s, the population of enterprises in 1950 was close to that which had existed thirty years earlier, whilst the continuity of ownership patterns in this period meant that these enterprises remained on the whole locally and family-owned. On the other hand, as was explored in Chapter Three, the number of British firms able to operate distant factories in the inter-war period was probably not large, and there were few reasons for mobile capital to look to a relatively isolated corner of the UK such as Fife to locate branch plants. The result was that, at least for the inter-war years, the low rate of entry was primarily a consequence of the

decline in the rate of new entries by locally-based entrepreneurs. Therefore, until the restructuring of the 1950s and 1960s, the fortunes of the local economy largely depended on the actions of locally-based businessmen, and exploring the development of that economy becomes an investigation into the contribution made by local capitalism to the economic development of the area.

In assessing this record, it is helpful to return to the chronology already identified. Reaching a judgement on the contribution of local capitalism to the economy of the Kirkcaldy area in the first and last of the three periods is fairly straightforward. Although it is often argued that the Edwardian era was a key period in the decline of the British economy when growth rates were particularly low,[1] there is little sign of failure in the Kirkcaldy area. Perhaps because of the county's late industrialization, this was a period of dramatic development. Census figures give some indication of the change. Between the censuses of 1901 and 1911, Fife recorded the second largest population increase in both absolute and - at 22.3% - in percentage terms for any county in Scotland. Some of the largest increases were recorded by parishes in the Kirkcaldy area.[2] These increases were linked to industrial development. The number of men with occupations in mining rose by 31.5% between the two censuses, whilst in floorcloth manufacture the increase was 23.7%, in flax and linen 17.0%, and in papermaking 15.7%.[3] As we have seen, in the period before the First World War, Fife and Edinburgh entrepreneurs launched new companies or expanded existing ones. The coal and linoleum companies of the Kirkcaldy area were leaders in the application of new technology. In some cases, family money was used to fund this expansion, in others, the opportunities created by limited liability were used to raise capital for a variety of ventures, some of them, such as the manufacture of cyanide, both novel and risky. Most of the capital was raised from individual investors in Fife and the Lothians. Industrial development in this period was, therefore, both rapid and locally generated. It is of course possible that more investment or different entrepreneurs would have brought still greater benefits, but there is no

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[1] M. Thomas, 'Slowdown in the Pre-World War One Economy' Oxford Review of Economic Policy, 4, 1988.

[2] Census of Scotland 1911. Report of the Twelfth Decennial Census for Scotland, Vol. 1, Pt. 17, p. 895, 905-6.

[3] Ibid., pp. 900-1.

evidence of missed opportunities. It would be hard to make out a case for 'entrepreneurial failure' among the Fife capitalist elite in this period.

At the other extreme was the period after the mid-1950s. In contrast to the earlier period, there can be little doubt that the old-established locally-owned firms which had dominated the economy for so long failed to serve the local economy well after the Second World War. Three separate, if linked, problems can be identified. In the immediate post-war years, the stock of existing companies probably discouraged new development in Fife. Low unemployment, and the resulting government action to direct firms to other parts of Scotland, acted as a barrier to entry to new launches or companies seeking sites for branch factories. This, however, was a temporary situation. When firm closures led to rising unemployment, the area proved very successful in attracting new industry. More significant was the failure of local firms to take advantage of the opportunities presented by the economic climate of the 1950s and 1960s. Many old-established firms, caught in declining industries, unable to meet changing demands or producing on an unviably small scale, closed or were taken over by larger, 'national' companies. Clearly, the demise of inefficient firms could be regarded as beneficial, and, at the time, their replacement by more dynamic firms was welcomed.[4] As was explored in Chapter Three, however, there are various reasons for believing that the restructuring of the economy in the 1960s was not an unmixed blessing for the Kirkcaldy area. Many of the larger new companies were not locally-based and Fife became a 'branch-plant economy'. Figures were presented in Chapter Three to suggest that branch factories of American and especially British concerns were less likely to remain in the area than those independent companies which survived the 1960s. And it has been argued elsewhere that branch factories were less likely to provide skilled or high quality jobs than home-based ones.[5] In the post-war years, therefore, local capitalism first delayed the diversification of the economy and later collapsed in the face of changing economic conditions, leaving the area dependent on the actions

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[4] D. Pocock 'Economic Renewal: The Example of Fife', Scottish Geographical Magazine, 86, 1970.

[5] See the discussion of this literature in Chapter 3 and, in particular, J. Firn 'External Control and Regional Development: The Case of Scotland', Environment and Planning, A, 7, 1975; and N. Hood and S. Young 'US Investment in Scotland - Aspects of the Branch Factory Syndrome', Scottish Journal of Political Economy, 23, 1976.

of distant decision-makers. It is this situation which Massey and others have identified as leaving a regional economy in a condition of extreme vulnerability.[6]

The intervening period is harder to classify. In some senses, the economy stagnated. In particular, the tradition of local entrepreneurs launching into new or established industries, often through the acquisition of second-hand premises, seems to have dried up. As was explored in Chapter Three, the slump of 1920/1 marked a turning point, with new enterprises being launched in 1919 and 1920, but almost none thereafter. This absence of new ventures has been explained in terms of a lack of perceived opportunities, but the entry rate did not begin to rise again until the 1950s, despite the generally more favourable economic climate after the mid-1930s. For a crucial period in the middle of the century, local capitalism ceased to add to the stock of companies in the Kirkcaldy area. This also had implications for the diversification of the local economy. One of the rare new developments, a plastics factory in Leslie, was due to an incoming company, De La Rue Ltd.. New local enterprise had ceased to be an innovative element in the industrial structure of the region.

Against this lack of new ventures must be set the record of the established companies. Existing firms survived and some of them expanded production or into new fields. Oakley in his survey was obviously impressed by the achievements of some of the old-established Fife firms, such as Tullis, Russell & Co. Ltd., Michael Nairn & Co. Ltd or Henry Balfour & Co. Ltd.[7] Census figures give an indication of the significance of survival. A comparison of the 1921 and 1931 figures for employment in various industries in the burgh of Kirkcaldy shows employment in ropemaking up 15.1%, in printing and lithography up 30.5%, and in floorcloth and linoleum up 34.6%, despite a fairly stable total population. If other industries, such as pottery, recorded large falls (63.4%), employment in the troubled coal and linen industries were down by only 4.1% and 5.2% respectively.[8] The

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[6] See, for instance, D. Massey 'In What Sense a Regional Problem?' Regional Studies, 13, 1979.

[7] C.A. Oakley Scottish Industry Today (Edinburgh, 1937) pp. 99-103.

[8] The boundaries of the burgh were enlarged in 1930 to include the small burgh of Dysart and this may have inflated the figures for employment in linen and coal, in particular. However, the largest linen manufacturer in Dysart, James Normand & Son Ltd., closed in

achievement of survival was also important in another respect: it left the economy with a stock of companies able to benefit from the upswing of the economy which came in the mid-1930s. Many of the firms which were to perform so well in this period, such as the Burntisland Shipbuilding Co. Ltd. or Henry Balfour & Co. Ltd., had struggled or stagnated in the 1920s. As Church points out in his study of the family-run Archibald Kenrick and Sons Ltd., a mediocre performance in one period does not preclude a later turnaround.[9] Firm survival in the 1920s and 1930s meant that Fife possessed a stock of companies which could benefit from better economic conditions later.

Yet here too questions can be raised. The companies which survived and in some cases even prospered in the inter-war and immediate post-war years were often precisely those which closed or were taken over in the 1950s and 1960s. Firms which had survived a period of extremely difficult trading conditions struggled in a period of unparalleled growth. The roots of later problems may lie in the policies followed and in missed opportunities in the period between the slump of 1920/1 and the mid-1950s. These years, therefore, emerge as a crucial period in any assessment of the contribution made by local capitalism to the economy of the Kirkcaldy area. If the performance of established firms protected the area from the worst ravages of recession and preserved a stock of companies which could take advantage of the war and post-war demand, there are also indications both in relation to new enterprises and in terms of existing ones, that this contribution, particularly when it came to creating or using new opportunities, was in decline. Any assessment of local capitalism in these years needs to stress both the positive and the negative aspects.

An explanation of the long-term failure of local capitalism to serve the economy of the Kirkcaldy area thus resolves itself into a number of key questions: how did locally-based firms survive the crises of the 1920s and 1930s? Why did so many of them fail in the 1950s and 1960s? And did the

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1922. In 1921, the population of Kirkcaldy was 39,591 and Dysart was 4,598. In 1931, the combined burgh had 43,874 inhabitants. Census of Scotland 1921, Report on the Thirteenth Decennial Census of Scotland, Vol. 1, Pt. 16, pp. 860-7, Census of Scotland 1931. Report on the Fourteenth Decennial Census of Scotland, Vol. 1, Pt. 17, pp. 694-6.

[9] R. Church 'Family and Failure: Archibald Kenrick and Sons Ltd., 1900-1950' in B. Supple (ed.) Essays in British Business History, Oxford, 1977, p. 122.

roots of later problems lie in the policies followed and in missed opportunities in the period between the 1920s and the 1950s?

Finally, before proceeding to review how these questions were answered, it is important to note that they have a wider relevance. As indicated in Chapter Three, clear parallels exist between the experience of Fife and that of Scotland as a whole. Some differences in chronology exist - the economy of Fife probably grew exceptionally fast in the Edwardian era, the influx of American firms appears to have been earlier in Clydeside - but the Scottish economy also shifted in the twentieth century from one dominated by locally-owned firms to one with an unusual degree of foreign investment. Scott and Hughes found Scotland in 1904/5 'a distinct national economy' which 'probably had a greater economic autonomy . . . than have many industrialising nations today'; according to Foster and Woolfson, by 1969, US investment in Scotland was second only to Canada in per capita terms.[10] And survival was also the dominant characteristic of the Scottish economy in the inter-war years. The economy which Oakley presented in his second survey in 1953 was one still dominated by family-owned and Scottish-based companies.[11] Understanding the long-term failure of local capitalism to serve the economy of the Kirkcaldy area may therefore be of relevance to debates about the development of the wider Scottish economy.

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Answering questions relating to the development of local capitalism in the Kirkcaldy area led inevitably into a consideration of business behaviour. Business policy is not merely an automatic response to market conditions, it involves choices, and the roots of success and failure can be found in these choices. The evidence available, however, relates less to the decisions themselves than to their consequences: it is easier to explore what firms did than why they did it. Chapters Four to Six looked at the behaviour of locally-owned firms in the Kirkcaldy area in an attempt to understand their ability to survive into the 1950s and their subsequent decline. In doing so,

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[10] J. Scott and M. Hughes The Anatomy of Scottish Capital (London, 1980), p. 54; J. Foster and C. Woolfson The Politics of the UCS Work-In (London, 1986), p. 44.
[11] C. Oakley (ed.) Scottish Industry (Edinburgh, 1953).

the emphasis was on comparison: since the pattern affected so many companies, differences and similarities between their polices were of particular interest. Where possible, quantitative or other evidence relating to all firms was used; elsewhere, use was made of case studies.

Chapter Four started by looking at the impact of the widespread adoption of limited liability upon firm survival. It argued that as well as permitting the development of firms which raised capital from the public, incorporation enabled family-owned firms to overcome the limitations of the partnership form and the uncertainties of demography by separating ownership and control within the family. Shares could be spread among family members and even to customers and employees, whilst control was retained by small groups of family leaders. At the same time, management was reinforced by appointing directors with professional skills or experience of the firm, without in any way diluting ultimate control. Thus, limited liability led to the evolution of new structures within family firms, in which the personal authority of firm founders or individual entrepreneurs was less prominent, but in which family control was retained. This new twentieth-century version of the family firm gave them the resilience to survive over time without undermining the power of owning families.

The importance of family ownership in Britain has been widely noted and it is often used as an explanatory factor in analyses of Britain's poor economic performance. This argument has most recently been revived by two American historians, Chandler and Lazonick, both of whom have seen a major reason for the contrast between the performance of the American and British economies in the twentieth century in the dominance of managerially-run firms in the former and the survival of widespread family ownership in the latter.[12] Chapter Four, however, questioned the validity of the link made between family ownership and firm decay. It did this by comparing the internal structures of family firms in the Kirkcaldy area to other locally-based firms and concluded that many of the characteristics usually identified with family firms were shared by others. In terms of board

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[12] A. Chandler Scale and Scope. The Dynamics of Industrial Capitalism (Cambridge, Mass., 1990); W. Lazonick Business Organization and the Myth of the Market Economy (Cambridge, 1992). See Chapter 4, section 4.5, for a discussion of their views on family capitalism.

composition, of management styles and of the relationship which existed between boards and shareholders, many parallels existed. In firms where ownership was dispersed between a number of interests or the wider public, as in family-dominated ones, power was wielded by small groups of autocratic business leaders, who were largely independent of shareholder control. Furthermore, the survival rates of the two categories of companies were not dissimilar. The chapter therefore argued that it was not so much ownership patterns as the decisions of businessmen which shaped the management structures and business policies of firms. Largely outwith the control of shareholders, whether family or not, firm leaders chose to preserve the structures of personal control where they existed and recreated them in new ventures.

Limited liability, therefore, created a framework in which both family-owned and other firms could survive over time and in which power was retained by boards or small groups within them. Chapters Five and Six looked at how business leaders used this power to shape the development of their firms in two crucial areas, production and finance. Here, as in Chapter Three, change over time emerged as an important variable. Chapter Five asked what production policies were followed to survive the difficult trading conditions of the inter-war years and why business strategies were less successful after the Second World War. Using case studies, it showed that in the inter-war years many firms reduced expenditure, including capital investment, to a minimum, thus condemning themselves to static or declining sales, but avoiding a commitment to production at full capacity. Product flexibility was also important as firms responded to any available opportunities in a period when demand for many of the products of the Kirkcaldy area was low. In the post-war years, firms had to respond to changing rather than low demand. In some industries, such as linen and linoleum, demand collapsed as traditional products were supplanted by new ones, forcing companies to diversify or go under. In other industries, such as shipbuilding, changes in demand or in the scale of production rendered existing plant unviably small. The chapter suggested that for many firms in the Kirkcaldy area the resources and the expertise needed to make diversification or large-scale investment successful were lacking in the 1950s and 1960s.

Chapter Six looked at the financial policies of manufacturing firms in the Kirkcaldy area and identified markedly different financial policies in the three periods. Before 1920, both family-owned and other firms were able to raise considerable sums outside the business either through the stock market or, more usually, through informal and family networks. Profits were not retained in the business either because the price of outside capital was high distribution, or because there was no need to build up internal reserves since external capital was easily available. In the inter-war years, when both the potential for profit and the need for capital dropped, many companies distributed little or nothing to shareholders. Strict austerity helped firms survive, but a crucial factor was the inability of creditors or shareholders to withdraw their capital without destroying the company. Businesses were able to survive as long as major losses were avoided by finding an equilibrium in which little money entered or left the firm. Problems arose in the post-war period. Here, growth and, in the long-term, even survival often depended on an ability to invest. Capital for investment, however, became intimately linked to the question of firm independence. Family firms attempted to generate capital internally through the retention of profits rather than sacrifice control by diluting the equity; yet such a course was fraught with difficulty since inadequate or irregular profits could easily provoke a cash-flow crisis. Companies with dispersed ownership were even more vulnerable since too great profit retention could make them attractive targets for takeover bids against which they, unlike family firms, had no legal barrier. The number of closures and takeovers rose as firms struggled to find a course between these threats.

Clearly, business strategies are complex. Individual firms showed considerable versatility, often changing policy markedly over time. Furthermore, the policies followed by different companies were never identical. At the same time broad patterns emerge. Chapters Five and Six suggested that a useful way of understanding these complex patterns is to see boards as operating in an environment of conflicting options. At any point in time, they faced choices relating to investment and production, to the raising of capital and the distribution of profit. The choices made reflected the changing balance of risk and profit. In the years before 1920, the opportunities for profit were seen to outweigh the threat of failure and businessmen were prepared to take risks which, in most cases, proved

justified. If this willingness to take risks reflected the opportunities available in a rapidly expanding economy, the risk-reducing factors, such as limited liability, the monopoly of information wielded by boards, and the availability of capital through informal sources, need also to be recognised. In the inter-war years, the balance of risk and opportunity changed. The uncertain economic conditions reduced the rewards of risk-taking, whilst caution offered a means of survival, and firm policies were adjusted accordingly. A further shift occurred in the late 1930s and 1940s. On the one hand, as the economy picked up and the conditions of high demand continued into the post-war years, expansion became both potentially more rewarding and less risky. On the other, changing demand and a less secretive and more competitive commercial environment meant excessive caution could jeopardise the long-term future of the firm.

Although other areas of business strategy were not explored, it seems probable that similar patterns would emerge if such issues as labour relations or inter-firm cooperation were explored. In these fields too, there was a pronounced shift from attempts to control market forces in the inter-war years to a more competitive environment later. Thus, in the early twentieth century many businesses in Fife used a variety of paternalist and disciplinary techniques to control the labour market. Employers like Michael Nairn & Co. Ltd. offered a secure job but low wages.[13] In the late 1950s, the employers' federation in the linoleum industry was under strain as the larger firms pushed for more generous wage agreements in exchange for productivity deals.[14] Similarly, even the largest linoleum manufacturers saw advantages in price-fixing agreements in the inter-war years, whilst in the 1950s opinion in the industry was shifting against them, even before the Monopolies Commission broke up the cartel in 1961.[15]

An emphasis on the options open to businessmen may also provide insight into the reasons for the low entry rate into business in the inter-war years by

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[13] R.J. Morris and J. Smyth 'Paternalism as an Employer Strategy, 1800-1960' in J. Rubery and F. Wilkinson Employer Strategy and the Labour Market (Oxford, 1994).

[14] Kirkcaldy Museum 79/31/3 and 4, Minute Books of Linoleum and Floorcloth Manufacturer's Association. Eg. 1.3.1957, 2.4.1959. The issue finally led to the withdrawal of Nairn and Williamson Ltd. from the Employers Federation in 1969.

[15] Working Party Report on the Linoleum and Felt Base Industry (1947); Modern Records Centre, Warwick University 253/1/1/7, Linoleum Manufacturers' Association, 4.10.1961.

Fife-based entrepreneurs. In Chapter Three it was suggested that the rate was a result of a dearth of perceived opportunities. If this were so, what may have been missing were opportunities within a given framework of expectations concerning business development. It will be recalled from Chapter Three that most new entries in the years before 1920 were linked in some way to existing industries. New entrants entered established industries, or followed an industrial pioneer, or developed to meet new local demands (as did, for instance, machinery manufacturers), or exploit newly available resources. In some cases, they used second-hand equipment, in others, they exploited their own expertise or that of locally-trained staff. Opportunities developed out of the local economy and were in that sense known. New entrepreneurs proceeded to establish companies similar to ones which already existed, both in how they were organised internally and in terms of products and markets. It is possible that potential entrepreneurs no longer saw such opportunities in the inter-war years. Established industries were either in recession, or, as was the case for linoleum, were increasingly expensive to enter. Any demand which existed was for goods in which the area had no previous experience. The risks of new entry had risen and may simply have appeared too high to potential entrepreneurs.

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If business strategies are seen as a response to changing conditions, then clearly businessmen in the Kirkcaldy proved better able to meet the challenges of the period between 1920 and the 1950s than in the period thereafter. The contrast is particularly extreme when the economic conditions of the 1920s and the early 1930s are recalled. Firms appear to have coped better with recession than growth. Nor can this be dismissed as merely a bias towards caution and survival. In the period before 1920, businessmen in Fife had proved well able to exploit the opportunities which arose. By 1960, Fife capitalism seems to have lost this ability.

One interpretation of this has been to emphasize that - despite the economic situation - conditions between the 1920s and the 1950s were extremely favourable for survival. This argument has stressed the role of the institutional and legal framework in which firms operated. As we have seen, Boswell argued that inheritance laws made it too easy to pass on

wealth, thus preserving an unnecessarily large number of stagnant family firms.[16] Historians of accountancy have stressed the advantages which loose reporting regulations gave boards to present figures in the most favourable light; Hannah points to the invulnerability to outside challenge which these and other imperfections in the take-over market gave incompetent managements.[17] Broadberry and Crafts draw attention to the significance of government action:

> In the 1930s, broadly speaking, policy strove to reduce competitive pressure on enterprises, in particular by raising tariff barriers, encouraging cartels, restricting foreign cash flows, and devaluing the pound.[18]

Such points echo Olson's emphasis on the power of 'special-interest organizations' in Britain or Elbaum's and Lazonick's on 'institutional rigidities'.[19] In this process of increasing sclerosis, the widespread adoption of limited liability in the early twentieth century can be seen as a key step in tipping the balance too far in the direction of security. Where previously the problems of family succession and the constraints imposed by unlimited liability had acted as a brake on firm longevity, once these problems had been overcome, the institutional framework in which companies operated was too secure. As long as boards were able to avoid financial disasters, there was little to stop them surviving, regardless of the quality of their performance. Thus in an article on family firms, Payne suggests that:

> . . . the family firm has been and has the potential to continue to be, an engine of economic growth, but paradoxically this is largely because the overwhelming majority of individual family firms in Britain did not and do not enjoy a particularly great longevity. . . . [Family inheritance] does not seem to have had any markedly deleterious effect in the nineteenth century since very few firms passed into the hands of the third and

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[16] J.S. Boswell The Rise and Decline of Small Firms (London, 1973), Ch. 11.

[17] See the discussion of accounting procedures in Ch. 6; L. Hannah 'Take-Over Bids in Britain before 1950: An Exercise in Business "Pre-History"', Business History, 16, 1974, pp. 76-7.

[18] S.N. Broadberry and N.F.R. Crafts 'Britain's Productivity Gap in the the 1930s: Some Neglected Factors', Journal of Economic History, 52, 1992, p. 535.

[19] M. Olson The Rise and Decline of Nations (New Haven, 1982), pp. 77-87; B. Elbaum and W. Lazonick 'An Institutional Perspective on British Decline' in B. Elbaum and W. Lazonick (eds.) The Decline of the British Economy (Oxford, 1986).

> subsequent generations. Only with the coming of the joint-stock company with limited liability did the life span of firms tend to increase sufficiently to make this possible on an appreciable scale . . .[20]

This argument is surely correct in drawing attention to the significance of the institutional framework in which businesses operated in the period between the First World War and the 1960s. There is, however, a danger of confusing the causes and consequences of firm survival. Unless it is argued that business survival hindered the launch of new firms or the expansion of existing ones - and we have seen that this case is not easy to argue for Fife in the inter-war years[21] - any long-term problems resulting from the period were the result not of firm survival itself, but of the policies pursued to ensure survival.

The policies pursued to ensure survival, however, were the result of perceived insecurity rather than too great security. If firms chose not to invest in new equipment in the 1920s, it was because the potential gains were too uncertain and the potential risks too great; if they chose to enter cartels which limited their ability to increase production, it was because they feared the consequences of unrestricted competition. Furthermore, the use which was made of the institutional framework in which business operated changed. As we have seen, in the years before 1920, limited liability was often a means for raising capital for new ventures, sometimes of an extremely risky nature. It was only when those opportunities were no longer perceived that it became almost exclusively a tool for ensuring firm survival. The regulation of financial disclosure was, if anything, tightened by the Company Acts of 1907 and 1929; what changed was not the level of abuse, but the reasons for concealment. In the years before the First World War, it appears that inadequate presentation was used to hide excessive risk-taking, whilst in the inter-war years secret reserves were the problem, as secrecy became a cover for extreme caution.[22] Finally, if the institutional

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[20] P. Payne 'Family Business in Britain: An Historical and Analytical Survey' in A. Okochi and S. Yasuoka (eds.) Family Business in the Era of Industrial Growth (Tokyo, 1984), p. 196.

[21] See Chapter 3, section 3.3.3.

[22] Compare, for instance, in Chapter Six, the behaviour of Barry, Ostlere and Shepherd Ltd. in the period before the First World War, and that of firms in the inter-war years (sections 6.3.2 and 6.4.1). See also J.R. Edwards 'British Capital Accounting practices and Business Finance, 1852-1929: An Exemplification', Accounting and Business Research, 10, 1979.

environment became more favourable to firm survival, this was not least because of the action of businessmen themselves. Turner and Tolliday show how business opinion swung slowly in favour of tariffs during the 1920s.[23] Business organisations came increasingly to favour cartels in the inter-war years.[24]

Thus businessmen in the inter-war years pursued policies geared towards survival and worked to make the environment in which they operated more secure, because of their perceived insecurity. Although the conditions in which business decisions were made were clearly important - and in the inter-war years these conditions included not only institutional security but also economic insecurity - what was crucial is how businessmen responded to these conditions. In the inter-war years businessmen sought security and used the institutional framework accordingly. The high survival rates of companies in this period are a measure of their success.

The importance of business response becomes even clearer when the immediate post-war years are considered. In broad terms, many of the conditions of the inter-war years were overturned: the economic environment became more stable, whilst the legal and institutional framework became less cosy. Unlike the aftermath of the First World War, the high demand of wartime was prolonged into the post-war years creating extremely favourable demand conditions for a long period. Other elements of stability should also be noted: the election of a Labour government and the policies of their Conservative successors ushered in a period of calm labour relations, very different from the confrontational atmosphere of the early 1920s.[25] On the other hand, some of the institutional constraints which had previously protected business were removed. It is generally agreed that the 1948 Company Act was the first to introduce some useful limitations on the ability of management to conceal results; Hannah dates

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[23] See the articles by J. Turner and S. Tolliday in J. Turner (ed.) Businessmen and Politics: Studies of Business Activity in British Politics, 1900-1945 (London, 1984).

[24] L. Hannah The Rise of the Corporate Economy (2nd edition, London, 1983), pp. 135-140.

[25] K. Middlemas Politics in Industrial Society. The Experience of the British System Since 1911 (London, 1979), esp. Ch. 14.

the development of an efficient market in takeovers from the early 1950s.[26] Meanwhile, the anti-competitive cartels of the 1930s were slowly dismantled.[27]

Thus many of the factors which economists have deplored as discouraging business innovation in the mid-twentieth century were removed. At a national level, it can be argued that the economy benefited from this more competitive environment. But in the Kirkcaldy area, it is clear that locally-based firms were largely unable or unwilling either to take advantage of the security provided by rising demand or to respond to the spur of greater competition. Part of the reason was clearly the legacy of the inter-war years. Decades of low investment left companies with ageing fixed assets and inadequate reserves. The case of John Balfour & Co. Ltd., discussed in both Chapters Five and Six, probably illustrates the problems faced by many small firms. Yet the examples of other firms considered, such as Smith, Anderson & Co. Ltd. or Henry Balfour & Co. Ltd., show that war-time profits did enable some firms to replace the ravages of the 1920s and 1930s.

Again, the key to understanding the general failure to make better use of the war and post-war boom lies in how businessmen responded to these changing conditions. It is important to note here the timing of change. High demand after the war and the time it took to dismantle anti-competitive practices (the linoleum price-fixing agreement was not broken up until the early 1960s) meant that there existed a period in the 1950s in which increased sales were rewarded, but a failure to change was not punished. The slowness of firms to exploit this opportunity - the 'wasted decade' in Massey's description[28] - is best explained by two types of concern. On the one hand were factors such as their fear of another post-war slump, worries about the intentions of the incoming Labour government and the revival of foreign competition, a caution inherited from the inter-war years in a situation which no longer warranted it. On the other were fears that change

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[26] S. Marriner 'Company Financial Statements as Source Material for Business Historians' Business History, 22, 1980, p. 231; Hannah 'Take-Over Bids', pp. 75-6.
[27] Hannah, Corporate Economy, p. 148.
[28] D. Massey Spatial Divisions of Labour. Social Structures and the Geography of Production (London, 1981) pp. 131-2.

would lead to a loss of control, that diversification required skills which boards did not possess and were reluctant to buy, that outside investment would dilute ownership or cede power to lenders.

The pattern of expansion, survival and decline by the locally-owned sector of the Kirkcaldy economy can therefore be attributed to the increasingly cautious and defensive nature of Fife capitalism. In the pre-1920 era, opportunities were seen and taken by both existing and new firms. In the inter-war years, few opportunities were seen and the number of new entries fell, but existing companies were able to alter their policies to survive. The adjustment to new conditions in the years after 1945 proved harder. The post-war decade offered many opportunities and few risks, yet the response was slow. By the time changing patterns of demand and an increasingly competitive environment forced companies into change around 1960, the situation was already less favourable. The result was the disappearance or the loss of independence by so many locally-owned firms.

An emphasis on business response can be used to highlight 'entrepreneurial failure', either because the response was inadequate, or, as have argued Elbaum and Lazonick, because of a failure to break out of the institutional framework in which firms operated. Equally, it can be used to justify the actions of entrepreneurs. Campbell, in particular, has argued that 'action cannot be deemed reasonable, even if it would have led to improvements in the long-term prosperity, if it required knowledge either not available, or not appropriate, to a contemporary'.[29] Businessmen responded to the situation that they perceived and if their information was incomplete, then they can hardly be blamed for the inadequacy of their response. Such arguments have been used to defend the record of entrepreneurs in the inter-war period, in particular. The policies of 'wait and see', as Campbell describes them, can be justified in terms of the catastrophic collapse in demand, the experience of the business cycle and the widespread belief that the economy must right itself.[30] Harder to justify in these terms is the behaviour of businessmen in the post-war years and Payne, for instance, reserves his harshest judgements for the Clyde

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[29] R.H. Campbell The Rise and Fall of Scottish Industry, 1707-1939 (Edinburgh, 1980), p. 152.
[30] Ibid., pp. 164-182.

shipbuilders of the post-war years.[31] If 'entrepreneurial failure' is defined as a failure to perceive opportunities for profit or growth when these exist, then the period in the economic development of the Kirkcaldy area for which it seems most likely to be an appropriate description is surely the post-1945 decade.

Yet it is questionable whether this is the correct yardstick. Response is not only influenced by information, but also by the goals pursued. As explained in Chapter Four, little evidence exists on business goals and we are largely dependent on interpreting business behaviour. Yet we cannot assume that profit maximisation was the only or the overriding goal of businessmen. It has repeatedly been stressed in this thesis that survival in business and the retention of control appear to have been of equal importance. Business strategies in the inter-war years, for instance, suggest, above all, a determination to survive, whilst, as was explored in Chapter Six, a conflict often arose in the post-war years between independence and expansion.

An unwillingness to abandon control and a determination to pass the firm on to succeeding generations are often seen as characteristics of family firms. It has, however, been argued here that business strategies did not differ substantially between family and other firms and it is questionable if the ownership structure is the correct framework within which to analyse the goals pursued by businessmen. More useful might be to think in terms of a regional business elite, comprising the leaders of both family-owned and other locally-based firms. As has been shown, there were no substantial differences between the two groups in their approach to business strategy and indeed, there was considerable overlap between them.

Although surprisingly few attempts have been made to explore regional business elites in twentieth-century Britain, this framework has been used in two relevant and contrasting analyses (both, interestingly, from a Marxist perspective). The Benwell Community Project, in their study of 'the ruling class' in the North-East of England, argue that the 'descendants of West Newcastle's old coalowning, industrial and banking families have become thoroughly integrated within a wider ruling class' during the twentieth

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[31] P. Payne 'The Decline of Scottish Heavy Industries, 1945-1983' in R. Saville (ed.) The Economic Development of Modern Scotland, 1950-1980 (Edinburgh, 1985), p. 109.

century.[32] During the inter-war and especially post-war years, their wealth was moved out of the area's crisis-ridden industries and invested in multi-national business, in property, and in finance, whilst family members continued to wield extensive power in the region's unelected state.[33] To talk of 'failure' in this context would be highly inaccurate: regardless of the fate of the local economy, the business elite only benefited by shifting its wealth out of industry. Foster and Woolfson, in their history of the 'work-in' at the Upper Clyde Shipbuilders, on the other hand, see the post-war decades as a period of conflict between 'state monopoly capitalism' associated with the new consumer industries of the south of Britain and 'the traditional leaders of Scottish capital', the great Clydeside industrialists. The events of the 1960s and early 1970s represented a final attempt by Scotland's industrial elite to regain their influence, and their defeat was a significant stage in the integration of the Scottish economy into one dominated by London interests.[34]

Any solid conclusions on which of these interpretations permits more insight into developments in the Kirkcaldy area would require rather different evidence than is provided by this study of business ownership and strategies. In particular, more needs to be known about the wealth-holding and the wider political role of business leaders. Yet in terms of their manufacturing interests, the second analysis appears to better fit the events of the post-war years. There can be little doubt that the process by which so many local firms closed or lost their independence was unwelcome and resisted. The examples of the Burntisland Shipbuilding Co. Ltd. or Michael Nairn & Co. Ltd. presented in Chapter Five showed boards struggling unsuccessfully to find solutions to insurmountable problems, and not an orderly withdrawal and redeployment of assets. As was explored in Chapter Six, firms preferred, where possible, to raise capital internally rather than dilute control, even to the extent of restricting the growth of the firm; for the directors of Smith, Anderson & Co. Ltd., it was clear that the loss of independence equalled defeat.

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[32] Benwell Community Project The Making of a Ruling Class: Two Centuries of Capitalist Development on Tyneside (Newcastle, 1978), p. 82.
[33] Ibid., Ch. 4.
[34] Foster and Woolfson, pp. 93-125.

Perhaps the best way of analysing the situation of businessmen in the Kirkcaldy area in the post-war years is to see it in terms of the risks and rewards. If the economic conditions of the period offered opportunities, the personal risks were also high. Although too little is known about the wealth-holding of businessmen, it is possible that many still had most of their assets tied up in their firms. According to Morgan, when Sir Michael Nairn died in 1952, 69% of his estate consisted of shares in Nairn companies; the wealth of smaller businessmen was likely to have been even less diversified.[35] For many Kirkcaldy businessmen, the firm, whether family or otherwise, may have represented wealth, income, social prestige and power, as much as a source of profits. The reluctance to take risks may simply have reflected the fear of loss. Much has been written about the desire of British businessmen to get out of business, but the problem may have been the reverse: that they could not afford to leave.[36] There were also factors at work during the course of the twentieth century which probably made it harder to withdraw. The distribution of ownership among family members may have reduced the opportunities for making large individual fortunes from business; the low profits of the inter-war years and war-time increases in personal taxation may have eaten into family wealth. Power and social status were increasingly linked to function in the war and post-war world.

The combination of these circumstances may have made businessmen both reluctant to take risks with their businesses, but equally reluctant to retire. As such, the regional elite of Fife businessmen became a block to the development of the region, too cautious to embrace change and yet unwilling to cede leadership of the companies they controlled. Olson points to the great power to slow or block change wielded by the losers and potential losers from the process of economic development in a country such as Britain, which has been relatively protected from external shocks.[37] Marquand suggests that in countries as diverse as Japan, France, Germany

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[35] N. Morgan 'Sir Michael Nairn' in A. Slaven and S. Checkland (eds.) Dictionary of Scottish Business Bibliography (Aberdeen, 1986), Vol. I, p. 379.

[36] A related point is made by Coleman when he argues that it is possible that one reason for the success of British industry before 1870 was that the children of successful businessmen abandoned business for the life of a gentleman, so that 'the field was continually being cleared for a succession of thrusting, ambitious Players'. D.C. Coleman, 'Gentlemen and Players', Economic History Review, 26, 1973, p. 111.

[37] Olson, pp. 38-47.

or Sweden, the solution has been for the state to interfere. In France, for example 'the state, acting in close collaboration with large, private sector firms, prodded, bullied, bribed, cajoled and argued a predominantly privately-owned economy into a more advanced and more competitive shape'.[38] At the same time, in these countries, the state has moved to placate losers:

> The adjustment process is politicised . . . by buying off some losers and potential losers, the French Gaullists and Japanese Liberal Democrats managed to construct a broad-based, majority coalition for economic adjustment, strong enough to impose its distributional settlement on the minority. In Scandinavia, and central Europe, the distributional issues have been settled by a process of negotiation . . .[39]

In Britain, in contrast, this process was largely left to market forces. During the late 1950s and 1960s, most of the locally-based firms which had dominated Fife for so long were driven out of business or into the arms of predators. They were replaced by new enterprises in new industries. As such, the process was effective; the price, however, was high. Change was resisted and, therefore, delayed. It also involved a process of integration, in which the economy came to be dominated by externally-owned companies, and locally-based enterprise was confined to a subordinate role. From relative autonomy, Fife became a peripheral area of a larger economy. The shift marked the end of an era. From then on, the economic development of the area has largely been shaped by external forces.

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[38] D. Marquand The Unprincipled Society. New Demands and Old Politics (London, 1988), p. 106.
[39] Ibid., p. 112.

8. APPENDIX: LIST OF ENTERPRISES

This appendix lists all the enterprises identified as holding manufacturing and coal-mining property in the 9 civil parishes of Burntisland, Kennoway, Kinghorn, Kinglassie, Kirkcaldy and Dysart, Markinch, Leslie, Scoonie and Wemyss in any of the survey years. For the methods used to collect this data, see Chapter Two. Note that only enterprises with property valued at £50 or over in one of the valuation rolls surveyed have been included.

Enterprises are listed alphabetically, by their full name, as in the Register of Company files. Note that this means, for instance, that Michael Nairn & Co. Ltd is listed under 'Michael' and not 'Nairn'. Enterprises are entered once only, under the most recent name used. For companies which registered as limited companies, this is the name used on incorporation. Most companies had the same name (without 'Ltd.') prior to incorporation, but a minority had slightly different names. The only companies which are entered twice are those incorporated companies which were liquidated and then re-formed under a slightly different name (for example, the Boase Spinning Co. Ltd.).

The second column gives the principal industry of each enterprises only. In a few cases, enterprises produced two or more related products. Thus, for instance, most of the linoleum companies were also engaged in the manufacture of floorcloth. However, most firms were single-product companies. Where companies were involved in both the spinning of flax and the weaving of linen, this has been indicated.

The three dates refer to the date the enterprise was founded, the date incorporated and the date wound up. For limited companies, the last was taken to be the year in which proceedings to dissolve the enterprise were initiated. For unincorporated companies, the date of liquidation is the date the firm closed. Where 'new' in entered in the column entitled 'founded', this indicates that the company did not exist prior to incorporation and the date of incorporation is therefore also the date the enterprise was founded.

The valuation roll (VR) figures for each survey year are in pounds sterling and give the total rateable value of industrial property in the nine parishes, rounded up or down to the nearest whole unit.

Name of company	Industry	Founded	Incorporated	Liquidated	VR 1900	VR 1910	VR 1920	VR 1930	VR 1940	VR 1950	VR 1960
A.H. M'Intosh & Co. Ltd.	Cabinetmakers	1869	1905		1150	1280	2087	2127.5	1804	1840	1880
A.S. Cairns & Rawson, Ltd.	Aereated water									56	
A. Westwater & Co.	Linen weavers				130	90	275	255			
Abbotshall Foundry Co.	Engineers				75						
Adam Morrison	Potters			c.1918	50	50	53				
Aiton & M'Connachie	Preserves				60	60					
Alex Bruce & Co.	Creosoting				75	135	80	255	255	275	
Alex. Fraser, Ltd.	Building	1861	1937	1985	77	107	113	113	125	125	61
Alexander Balfour & Co.	Bleachers	1840		1914	132	30					
Alexander Davidson	Bleachers			1904	170						
Allen Lithographic Co. Ltd., The	Lithographers	1867	1900		60	200	325	510	744	744	790
Anderson Boyes & Co., Ltd.	Engineers										8000
Andrew Blyth & Co.	Linen weavers	1850s		1961	500	650	956	956	956	956	956
Andrew Hutchison	Aereated water						30	71	122	122	122
Archibald Bryce (ltr. John)	Boilermakers	1851			60	60	75	75	77	110	110
Archibald Dowie & Sons	Coachbuilders	1810	1909	1909	80						
Archibald G. Brown	Ice							120	120		
Balgonie Colliery Co. Ltd.	Coalmasters		1914		4538	5054	4193	4813	6449		
Barnet & Morton Ltd.	Decor. steel		1916	1982							250
Barry, Ostlere & Shepherd Ltd.	Linoleum	New	1899		10410	9966	15333	19058	28078	29486	34051
Beattie's Bakeries Ltd.										580	750
Beckman Instruments Ltd.	Elec. engineers										3575
Beveridge & Skinner, Ltd.	Engineers		1924	1948?				96	133	133	
Board of Agriculture & Fisheries	Bleachers						500				
Boase Spinning Co. (1920) Ltd.	Flax/jute		1920				975	3770	3770	3790	3390
Boase Spinning Co. Ltd.	Flax/jute	pre 1868	1886	1920	680	780					
Bowman & Co.	Coalmasters	1864		1905	18245						
British Aluminium Co., Ltd., The	Alumina		1910				2281	6000	9878	10028	10700
British Oil and Cake Mills Ltd.	Veg. & animal				300	400	500	518	518	580	

Name of company	Industry	Founded	Incorporated	Liquidated	VR 1900	VR 1910	VR 1920	VR 1930	VR 1940	VR 1950	VR 1960
Burntisland Laundry Co. Ltd., The	Laundry		1910			63	60	60	105	105	105
Burntisland Shipbuilding Co., Ltd., The	Shipbuilders	New	1918	1968			3000	1600	1640	3922	6516
Central Farmers Ltd.	Animal	c.1933							1190	1600	2197
Checker Produce Co.	Veg.										470
Claymore Engineering Co.										170	
Concrete Products (Kirkcaldy) Ltd.	Concrete slabs										114
County Council of Fife (Direct Labour)	Building										312
Curror Bros.	Maltsters			1900	350						
D. & H. Ferguson Ltd.	Sawmillers		1917	1984		32	90	90	325	315	315
D.S. Honeyman Ltd.	Bleachers		1948		120	115	136	142	111	111	
David Anderson Cuthill	Dyers							70			
David Brown & Son	Sawmillers	1862			45	45	106	100	100	115	122
David Methven & Sons	Potters	1714		1928	743	793	1182				
David Ronaldson	Coachbuilders								130	155	155
David Tod & Sons (Webbing) Ltd.	Webbing		1946		105	35	44	44	44	44	
Denis Harper Ltd.	Coachbuilders										72
Distillers Co. Ltd., The	Whisky distillers	New	1877		2500	2500	2375	5116	6042	6106	6851
Douglas & Grant Ltd.	Engineers	1847	1912	1926	350	600	1168				
Fife Preserves & Confectiony. Co. Ltd.	Preserves	New	1919	1922			225				
Dunfermline & West Fife Laundry Ltd.	Laundry		1911								243
Earl of Rosslyn's Collieries Ltd.	Coalmasters		1897	1927	8259	5290	21065				
East Fife Laundries Ltd.	Laundry		1908	1914		50					
E. M.P. Corporation (1933) Ltd.	Glass	New	1933						1159	1394	1818
Fife Coal Co. Ltd.	Coal masters	1872	1895	1952	14966	24619	31567	26255	23630		
Fife Coast Laundries Ltd.	Laundry		1935				71	93	93	225	232
Fife Distillery Co. Ltd.	Distillers	New	1896	1903	900						
Fife Forge Co., Ltd.	Forgemasters	1873	1913		235	235	1169	1071	1071	1170	1260
Fife Grain Dryers Ltd.											60
Fife Hygienic Bedding Co., Ltd., The	Bedding	c.1900				48	48	60	60	65	65

Name of company	Industry	Founded	Incorporated	Liquidated	VR 1900	VR 1910	VR 1920	VR 1930	VR 1940	VR 1950	VR 1960
Fife Linoleum Co., Ltd.	Linoleum	1894	1904	1933		1100	1656	2560			
Fife Linoleum & Floorcloth Co. Ltd.	Linoleum	New	1894	1904	1070						
Fife Paper Mills Ltd.	Papermakers	New	1918	1979			600	1770	2131	2834	3950
Fifeshire Advertiser Ltd.	Printers		1910		30	51	62	65	100	100	150
Fisons Ltd.	Agric.									346	
Formica Ltd.											720
Forth & Clyde Roperie Co., Ltd.	Rope and twine	1850	1951		200	210	470	724	1304	1439	1269
George Halley & Co. Ltd.	Dyers &	1825	1951	1984	35	35	45	55	82	97	235
G. & J. Johnston (Wemyss) Ltd.	Linen weavers	1828	1936		234	210	262	450	450	450	2100
George Nicoll	Golf	1880	1982		25	25	56	100	135	138	215
George W. Adamson		1899			40	40	51	154	154	128	
Glenfarg Aer.Water Wks (Wemyss) Ltd.	Aereated Water		1919	1929			63	68	72		
Grosset & Co., Ltd.	Papermakers	1880	1910	1918	350	450					
Halkerston Normand	Maltsters	1820s			50	50	63				
Harrow, Campbell & Co., Ltd.	Linen weavers	1867	1905	1912	170	130					
Henry Balfour & Co. Ltd.	Engineers	1810	1896		300	335	451	970	2090	3500	4115
Henry Kilgour & Co. Ltd.										110	110
I.G. Meiklejohn & Co.	Golf equipment										65
Ireland & Wishart, Ltd.	Linen weavers	1863	1900		200	220	438	503	508	508	380
J. Cameron & Sons, Ltd.	Leathers goods						94	94	90	90	
J. & G. Brown	Brewers	1843			167	167	125				
J. M. Tod Ltd.	Aereated water		1946			57	72	72	72	72	72
J. & W. Dixon	Papermakers	1816		1918	510	475	1080				
J. & W. Hendry	Flaxspinners	1829		1932	630	630	775	500			
J. & W. Stuart	Net & twine	1878			133	163	179				
James A. Weir Ltd.	Papermakers		1896		480	480	850				
James Dawkins & Co., Ltd.	Elec. engineers		1919					70	70	70	70
James Donaldson & Sons, Ltd.	Sawmillers	1860	1919		175	200	240	590	608	741	888
James Hogarth's Centr. Flour Mills Ltd.	Flourmillers		1950		400	400	550	550	550	590	590

Name of company	Industry	Founded	Incorporated	Liquidated	VR 1900	VR 1910	VR 1920	VR 1930	VR 1940	VR 1950	VR 1960
James Jones & Sons Ltd.	Sawmillers		1905								445
James K. McKenzie	Potters							70			
James Linton	Ropespinners				84						
James M'Innes & Sons	Bleachers	1867			125	169	259	32.5			
James M'Laren	Wood Flour								130		
James Meikle & Co. Ltd.	Carpets	1919	1939	1980			100	200	545	425	2970
James Normand & Son Ltd.	Flax & linen	pre 1800	1881	1922	1250	1170	1463				
James Robertson (Leven) Ltd.	Ropespinners	1877	1911	1922	19	25	141				
James W. Duncan	Printer						63	63	63		
John Balfour & Co. Ltd.	Animal	1813	1913	1955	196	216	256	340	340	340	
John Davidson & Son, Ltd.	Printers	1840	1940		14	39	38	76	82	77	77
John Fergus & Co., Ltd.	Flaxspinners	1828	1925	1957	2610	1500	1877	3300	3300	3545	
John Fletcher	Shipbuilders	1917		1922			225				
John G. Cunningham Ltd.	Animal		1934	1946		76	95	346	346		
John Haig & Co. Ltd.	Whisky	1877	1894		448	520	688	1720	5008	5012	5027
John Jeffrey & Co.	Linen weavers	c.1840		1923	490	430	600				
John Leitch & Co. (Fdrs & Enginrs) Ltd.	Foundry	1921	1952					25	44	90	105
John Lornie & Sons	Linen weavers	c.1850		c.1915	60	110					
John M. Butchart											90
John Main & Son	Linen weavers	1848		1912	610	560					
John Martin & Co. (Anstruther) Ltd.	Oilskin &									120	120
John Methven & Sons	Coalmasters							688			
John Ross	Brassfounder				50						
John Scott & Co.	Shipbuilders	1885		1901	609						
John Shields & Co. Ltd.	Damask	pre 1889	1897	1936				600			
John Smith	Millspinners				390						
Kinghorn Bottle Co., Ltd.	Glass manufs.	New	1908	1948		45	525	400	535		
Kirkcaldy Calendaring Co.	Calenderers				80						
Kirkcaldy Dyeing & Cleaning Co., The	Dyers						60				

Name of company	Industry	Founded	Incorporated	Liquidated	VR 1900	VR 1910	VR 1920	VR 1930	VR 1940	VR 1950	VR 1960
Kirkcaldy Net Co., Ltd.	Nets, rope,		1925	1932				110			
Kirkcaldy Oil & Cake Mills Ltd., The	Seed crushers		1903	1912		130					
Kirkcaldy Spinning Co., Ltd., The	Hemp spinners	New	1898	1902	342						
Kirkcaldy Steam Laundry Co., Ltd.	Laundry		1891		88	148	179	190	224	251	145
Lawrence Buist & Sons	Earthenware	1869			100	75	94				
Lewis C. Grant Ltd.	Engineers	1927	1952					100	110	190	240
Matthew Spears & Co., Ltd.	Cabinetmakers		1945	1958						340	
McDonald Engineers (Kirkcaldy) Ltd.	Engineers	New	1945							310	410
Melville-Brodie Engineering Co. Ltd.	Engineers	1869	1956	1971	165	185	324	400	400	420	420
Methil Brick Co., Ltd., The	Brick, tiles etc.	New	1908	1974		770	579	517	455	400	947
Methil Engineering Co. Ltd., The	Engineers	New	1900	1911		100					
Methil Machinry & Scrap Metal Co. Ltd.											128
Michael Nairn & Co., Ltd.	Linoleum	1847	1893	1966	6160	10696	15165	26537	38873	35432	45406
Minerva Radiators (Dundee) Ltd.											20
Mitchell & Lawson	Maltsters				135						
Modo Ltd.											150
Murray Grubb & Sons	Soft drinks							22.5	50	50	60
N. Lockhart & Sons, Ltd.	Linen weavers	1797	1929		320	365	563	563	588	588	588
N. & N. Lockhart Ltd.	Flaxspinners	c.1850	1919		810	810	1179	1060	1344	1270	1270
National Coal Board	Coal	New	1947							49452	77202
National Steel Foundry (1914) Ltd.	Steel foundry	1909	1914				1875	1895	2697	3200	4840
National Steel Foundry Ltd., The	Steel foundry	New	1909	1914		470					
North British Ropework Co. Ltd.	Ropespinners	1861	1905	1944	90	130	175				
Patents Manufacturing Co., Ltd., The	Pulverisers, etc.		1903	1916		90					
Peter Greig & Co. Ltd.	Linen weavers		1951		292	300	419	643	643	652	660
Purves & Cunnigham	Printers					65	65				
R. Douglas Ltd.	Aereated Water		1915	1975			188	210	210	210	246
R. Gerrett & Sons	Salt manufs.	1857			65	65	68	68	68	68	
R.J. & A. Heggie	Dyers				90	142	178	115	115	115	

Name of company	Industry	Founded	Incorporated	Liquidated	VR 1900	VR 1910	VR 1920	VR 1930	VR 1940	VR 1950	VR 1960
R.Y. Pickering & Co. Ltd.	Waggon		1888		75	60	80				
Remploy Ltd.	Knitwear									100	132
Richard Irvin & Sons Ltd.								69	69		
Rintoul & Co. Ltd.	Aereated water		1920			45	82	82	70	100	100
Robert Barr Ltd.											98
Robert Forrester & Co. Ltd.	Coalmasters		1901	1951		348					
Robert Heggie & Sons	Linen weavers	1845			350	350	481				
Robert Heron & Sons	Potters	c.1790		1930	110	110	181				
Robert Hutchison & Co., Ltd.	Millers and	1826	1894		2450	2833	3588	3501	4139	4249	4655
Robert Kilgour & Co. Ltd.	Maltsters	1875	1951		340	340	494	445	445	300	3500
Robert Stocks & Co., Ltd.	Linen weavers	1805	1931		350	400	617	629	859	868	890
Robert Tullis, Junior, Ltd.	Bleachers	New	1925	1956				621	482	482	
Robert Watson & Co. Ltd.	Waterproofers		1928							145	145
Robert Wemyss & Co., Ltd.	Linen weavers	1837	1913	1956	800	850	1438	1438	1438	1455	
Robt. B. Heggie & Andrew Pratt	Linen weavers			1905	100						
Ronald Courtnage											115
Scott of Kinghorn Ltd.	Shipbuilders	New	1901	1909		350					
Scottish Concrete Manufring. Co. Ltd.	Concrete goods		1921	1957			55	73	73	73	
Scottish Cyanide Co. Ltd.	Cyanides	New	1896	1905	800						
Scottish Cyanide Co. Ltd.	Cyanides	1896	1905	1907							
Scottish Malt Distillers Ltd.	Distillers	New	1914				938				
Scottish Milk Marketing Board											2100
Scottish Pulverising Co., The				1902	100						
Sinclairtown Laundry Co.	Laundry					33	33	165	165	235	
Smith, Anderson & Co., Ltd.	Papermakers	1860	1909		1421	1400	3476	2770	2988	5661	9098
Strachan & Livingston, Ltd.	Printers		1920		45	45	57	65	80	90	180
Stuarts & Jacks Ltd.								163			
Supervision Electronics											150
T. Henderson & Co.	Sawmillers					82					

Name of company	Industry	Founded	Incorporated	Liquidated	VR 1900	VR 1910	VR 1920	VR 1930	VR 1940	VR 1950	VR 1960
The Steel Pipe Co., Ltd.		New	1900	1934	225	165	200	164			
Thomas Crabbe	Spinners				165						
Thomas De la Rue & Co., Ltd.	Pens, plastics		1898					315	320	1032	
Thomas J. Plummer											62
Thomas M'Laren & Sons	Linen weavers	1855		1927	440	400	870				
Thornton Colliery Co. Ltd.	Coalmasters			1902	100						
Trustees of late John Terrace	Linen weavers	1866			105						
Truvu (Electronics) Ltd.											866
Tullis, Russell & Co., Ltd.	Papermakers	1809	1906		2010	2535	6290	7900	10675	11283	29423
United Glass Ltd.	Bottle manufs.		1913							555	565
Victoria Carpet Co., The	Carpet	1894		1900	270						
W. Lumsden & Son Ltd.	Linen weavers		1941	1972			600	600	600	600	600
W.M. Low & Co. Ltd.	Sawmillers		1898	1901	100						
Wagon Repairs Ltd.								80	80	80	
Walkerton Bleaching Co.	Bleachers				704	120					
Walter Herd & Son Ltd.	Coalmasters		1898	1908	1944						
Water Heating Systems Ltd.										215	675
Wemyss Coal Co., Ltd.	Coalmasters		1894		6303	46591	58999	49187	67742		
Wemyss Collieries Trust Ltd., The	Bricks		1897							845	850
William Gibson & Co., Ltd.	Golf clubs,	1898	1910	1955		72	220	377	290	290	
William Kininmonth	Aereated water				70	105					
William McMillan Ltd.	Bacon curors		1942							40	40
William Mitchell & Co.	Woollen	1859		c.1960	62	59	64				
William Philip & Son (Kirkcaldy) Ltd.	Engineers		1947	1964	20	125	188	188	188	188	198
William T. Leishman	Brewers				70						
William Thomson	Net manufs.					83	86				
William Young & Co. Ltd.	Distillers	1786	1888	1914	1270	1200					
Williamson Bros.	Sawmillers									72	72
Wolf & Co., Kinghorn Mills, Ltd.							125	125	130		

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- 44/7 Papers of Scott of Kinghorn Ltd.
- 67/2-3 Papers of N. Lockhart & Sons Ltd.
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- SCO03626 The Wemyss Collieries Trust Ltd.
- SCO04357 Barry, Ostlere & Shepherd Ltd.
- SCO04449 Ireland & Wishart Ltd.
- SCO04583 Allen Lithographic Co. Ltd.
- SCO06195 Tullis, Russell & Co. Ltd.

- SCO05853 A.H. M'Intosh & Co. Ltd.
- SCO06751 Methil Brick Co. Ltd.
- SCO08553 Fife Forge Co. Ltd.
- SCO09072 Balgonie Colliery Co. Ltd.
- SCO09263 National Steel Foundry (1914) Ltd.
- SCO10033 The Burntisland Shipbuilding Co. Ltd.
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- SCO10348 N. & N. Lockhart Ltd.
- SCO10528 James Donaldson & Sons Ltd.
- SCO11107 The Boase Spinning Co. (1920) Ltd.
- SCO13173 Peter Greig & Co. Ltd.
- SCO15658 N. Lockhart & Sons Ltd.
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- SCO21676 W. Lumsden & Co. Ltd.
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- SCO26367 D.S. Honeyman Ltd.
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