

opinion

By Johan Fourie



BUSINESS HISTORY

Why history matters for entrepreneurs

In order to understand why certain strategies companies used succeeded (or failed), it is vital to have a firm grasp of the times and context in which they came into being.

I teach economic history at Stellenbosch University, and often have to explain to business students, many with little interest in history, why they should care about the past. Broadly, there are two reasons why economic history matters.

First, history explains the present. It would be incredibly difficult to understand – or begin to address – education, unemployment or inequality in South Africa without understanding its historical origin. Local unemployment is a problem of the 1970s, for example, when wages started increasing at a much faster pace than productivity, a result of poor-quality black education in combination with the mobilisation of black labour unions. While SA is capital-scarce, most firms, in response, adopted capital intensification, further increasing the wage gap between skilled and unskilled labour. Inequality worsened.

Economic history matters too, because it is analogous to the present. Ben Bernanke, chair of the US Federal Reserve when the Great Recession hit in 2007, wrote a 1994 review paper on the “macroeconomics of the Great Depression”, so when financial markets tumbled in 2007, Bernanke was acutely aware of what not to do. This allowed him to implement measures – like quantitative easing – to soften the deepening crisis.

The field of business history has also gained popularity, most notably at Harvard Business School. Often case studies written by Harvard business historians form the core of case studies used by business schools globally.

As Geoffrey Jones, faculty chair of the Business History Initiative, puts it: “In the present turbulent age, it has never been more important for business practitioners and policymakers to have a critical and rigorous understanding of the past.”

Business historians teach not only in business schools, but also in departments of management, finance, entrepreneurship, accounting and economics.

Places like Harvard invest in business history because of intellectual honesty. Andrew Godley, director of the Centre of Entrepreneurship at the Henley Business School, explained to me in 2015: “Almost all MBA subjects are taught using case studies. Case studies are,

by definition, historical. They are justified as devices to aid student learning of a particular theme (e.g. diversification strategies).

“But because they are historical by definition, any successful interpretation of the case study (and so any successful learning outcome) depends on the students understanding the historical context facing the decision-makers in that particular firm.

Acknowledging explicitly that context matters and that context changes, therefore leads to the further acknowledgement that MBA students need some sort of grounding in business history methods to be able to correctly interpret (and so learn from) case studies.”

Context is particularly important in the developing world. As Harvard’s Aldo Musacchio suggests, emerging markets have specific “institutional voids” that entrepreneurs must overcome to be successful. This may be anything from a poor education system to severe labour market regulations. How businesses react to these voids determines the type of firm established.

Our lack of understanding how institutional voids gave rise to indigenous businesses is especially acute locally. Stellenbosch University historian Anton Ehlers has written about the black economic empowerment project of **Pep Stores** in the 1970s. A separate company, Pep Stores Peninsula Limited, was created in 1973, with the majority of shares sold to members of the coloured community at 50c/share and a minority of shares owned by the parent Pep Stores. When the Group Areas Act was repealed in 1991, coloured shareholders were offered shares in Pep Stores or cash of R35/share, an increase of 7 000% over 18 years, a remarkable success story. And important local “case study”.

But much more can be done. What were the institutional voids that gave rise to firms

like SAB, Discovery or Black Like Me? We need to understand the histories of public utilities, NGOs, and banks (Ehlers also published the histories of Boland Bank and Capitec).

The rise of African capitalism over coming decades will require a large pool of skilled managers that both understand the domestic complexities and global supply chains. May these managers, trained in Africa’s leading

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business schools, draw from lessons of our own history and context. My challenge to SA’s top business schools: Encourage dissertations on the histories of local businesses; introduce a course in business history; appoint a tenure-track professor to research the histories of African businesses; and create an archive of business history to protect the documents that future generations will need to understand our current

successes and failures. (What are the lessons, for example, of the failure of Mxit? What a great case study!)

These challenges are not easy to fulfil in the time and resource-constrained business schools of today, where accreditation is paramount. Yet we must try harder if we are to inculcate the next generation of business people with the competitive advantage of context.

As Stephen Mihm from the University of Georgia remarks: “Business history – or the history of capitalism – is not a science. It’s a way of looking at the world that acknowledges the messiness of human economic activity even as it promises to explain both the recurrent patterns of the past and the unique factors that led up to the present. For business school students, history breeds recognition that the present is nothing more than the leading edge of the past.” ■

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