

Explaining corporate success: Britain's best performing firms, 1949-1985

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Abstract

The paper synthesises theories of competitive advantage in a dynamic framework to explain the determinants of corporate success. A model is presented linking the firm's resource audit and dynamic capabilities with the rate of market growth. For the purposes of testing the model, an examination of the performance of all British quoted companies during the period is conducted with reference to achieved long run average rates of return on capital employed. The best performing firms are analysed in more detail and their strategies mapped according to the model criteria. Conclusions are then drawn on the possible strategies for achieving long run corporate success in terms of above average financial returns.

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1. Introduction

Competitive advantage and more specifically sustained competitive advantage and its determinants, has become an important research topic in the business and management and industrial organisation literatures. Sustained competitive advantage (SCA) implies not just achieving superior returns, but achieving them over a protracted period of time. It is therefore surprising that the overwhelming majority of this literature has not explored the notion of sustained competitive advantage from a historical perspective.

One exception was the influential early study by Peters and Waterman (1982). Although lacking historical perspective in terms of its analytical framework, Peters and Waterman nonetheless used a long run period to identify the best performing companies in terms of their return on capital employed. They then examined what these 'excellent' companies had in common. In similar vein the current study identifies Britain's best performing companies in the period 1949-1984. Unlike Peters and Waterman, it attempts to explain the reasons for their success through the period in which the success was achieved. It is thereby hoped, like Peters and Waterman, some generalisations about the determinants of corporate success can be thus established.

Since the Peters and Waterman study in 1982, the strategic management literature has developed some major theoretical contributions to our understanding of SCA. Foremost among these are the resource based view of the firm and the associated theory of competitive heterogeneity. The resource-based view (RBV) explains competitive advantage, or delivery of sustainable above-normal returns, in terms of firms' bundles of resources, which are valuable, rare, inimitable and non-

substitutable (VRIN).¹ Such returns can also be delivered through accessing resources, including for example monopoly control, as in the theory of competitive heterogeneity.

As a by-product of their close relationship, these theories face two problems. First, they are potentially difficult to separate when examining empirical evidence. It is not always obvious for example whether a resource leading to SCA has been developed by non-replicable processes, as in the RBV, or is the product of monopolistic control, as in the case of competitive heterogeneity. Second, both tend to be applied statically or without recourse to historical evidence.² In order to overcome these problems, the paper introduces a simple historical variable, the rate of growth, in order to introduce a time dynamic to otherwise static, but nonetheless important dimension of resource audit.

The contribution of the paper is accordingly threefold. First, a simple model, presented in the next section, is offered as a starting point for a synthesis between the research objectives of strategic management and business history. The second contribution is to present an empirical dataset describing Britain's best performing firms in the period 1949-1984. There are important methodological issues associated with this task and these are set out in the third section. The fourth section presents the results in the form of performance league tables and offers a third contribution: some tentative explanations as to the general reasons for corporate success apparent from case studies of individually successful firms. A final section offers conclusions and suggestions for further research.

2. Theoretical model

The model is shown in figure 1 and has two dimensions. First, following previous studies³ the resource base of the firm is used as one of the dimensions. In

contrast to these studies the audit of the resource base is separated into two elements. First, there is the dichotomy introduced by Teece et al between ‘strategising’ and effective internal organisation.⁴ Strategising, in line with Teece is defined as unbalancing competitors by raising their costs, denying them entry etc. Effective internal organisation in contrast refers to dynamic capabilities or the ability of management to adapt, integrate or reconfigure the organisation’s competences in line with changes in the environment. In the dynamic capabilities model, there is an implicit assumption about rapid environmental change, since their discussion follows observations about the processes of competitive advantage in industries such as semi-conductors, information services and software.⁵ In addition to this potentially context limiting deployment of the model, the association of these dynamic environments with increasing returns is suggestive of applicability only to situations where firms are confronted with rising demand for their products. An obvious limitation or potential extension is therefore to consider firms in dynamic but nonetheless declining markets where returns might be decreasing at least for the less competitive firms. History matters in the sense that path dependency creates lock in problems so that there may be limited opportunities for firms which have made investments in previous periods (Teece et al 1997, p.523). Nonetheless there seems to be little or no role for Schumpeterian creative destruction where managers are in the iron grip of their own learning processes. Whilst the dynamic capabilities literature has weaknesses, it potentially offers a superior method of analysis as an alternative to Chandler’s big business dominated paradigm.⁶

To extend both the dynamic capabilities and heterogeneous resource endowment approaches to provide specifically historical perspective, a growth dimension is also introduced, which forms the horizontal axis in figure 1. Firms are

therefore faced typically with expansion or consolidation strategies depending on what their markets allow. Expansion is consistent with the dynamic capabilities approach. Alternatively where the firm has ex ante heterogeneous resource endowment, it can exploit its larger size by increasing investment in innovation and improves the its market position.⁷ In general expansion is consistent with further investment and normally this will mean either courting further investment from outside debt and equity capital suppliers or requiring equity capital to forego dividend payouts in favour of reinvestment. Whatever the precise financial mix, dependency on outside capital increases the requirements for accountability on incumbent management. In such cases it is likely that increasing returns will be appropriated by external capital suppliers rather than by incumbent managers. Conversely where markets are static or declining, firms are more easily able to survive by utilising previously accumulated resources and it is therefore more likely that returns will be appropriated as rents by managerial insiders. Also, where markets are static or declining the issue of competitive advantage does not disappear, since SCA still corresponds to relative superior returns even where the benchmark return is declining. In this situation the methods available to secure SCA are resource sharing with other firms in defensive cartels or the use of creative destruction to overcome the lock in effects of prior organisational learning.

Figure 1: Resource characteristics, market growth and competitive advantage

		Market growth rate	
		High	Low
Resource characteristics	Heterogeneous endowment	<i>Quadrant 1</i> Source of SCA: Market power; acquisition and diversification External resource dependency and accountability: High	<i>Quadrant 2</i> Source of SCA: Market power; integration External resource dependency and accountability: Low
	Dynamic capabilities	<i>Quadrant 4</i> Source of SCA: Managerial competences and intangible assets. External resource dependency and accountability: High	<i>Quadrant 3</i> Source of SCA: - niche - turnaround - creative destruction External resource dependency and accountability: low

In quadrant 1, firms expand their resource base so that they can use market power to deny entry. At the same time, rapid market growth rates make the managers of incumbent firms more highly dependent upon resources from capital suppliers, creating increased accountability and facilitating greater external appropriation of increasing returns. In quadrant 2, returns are static or decreasing on average due to the absence of market growth. Incumbent managers are less dependent on external suppliers of capital to fund expansion and therefore seek to achieve using consolidation strategies to achieve competitive advantage through market sharing arrangements and cartelisation. Profits are more likely to be appropriated as managerial rents. In quadrant 3 firms have less access to outside capital due to lower growth rates and therefore cannot maintain dynamic capability assets, other than by identifying market niches. Only if these assets can be reconfigured through a process of creative destruction and turnaround will they experience both competitive

advantage and absolute increasing returns. Another risk is that resources that exist in the form of managerial competences will be absorbed within the firm as managerial rents. Only in quadrant 4 do firms obtain competitive advantage and increasing returns in the manner suggested by Teece et al, as they are able to utilise outside financial resources to invest in developing the organisational competences which can be used to maximise opportunities from the dynamic external environment.

In order to test the model it is necessary to investigate long run returns for a series of case study firms. It is particularly important, following the discussion above, to identify periods of increasing return within a longer run period of SCA in order to ascertain the precise method by which the SCA was obtained in any one of the four quadrant situations.

3. Data and Data Analysis

Data for the survey were obtained from the Cambridge University/ DTI Companies Database (CDCD).⁸ The database contains the accounting records of the constituent public limited companies (PLCs) for the period 1949 to 1984. It should be stressed at this stage for the purposes of subsequent discussion that private firms and hence small family businesses are therefore excluded. The average number of companies included is 2219 per year across 25 industries. Companies enter or leave the database depending on time of incorporation, transfer to PLC status, take-over, liquidation etc. The total number of company/years on the database is over 66,000.

For the purposes of this analysis, successful companies are defined as a) those that survive as independent entities, b) that outperform peer group average return to capital for that industry, and c) that outperform other firms in the economy according to return on capital relative to industry average. Accordingly, to be included in the list

of companies for further analysis, a company had to appear on the CDCD database continuously during the period 1950-1983.⁹ This method is appropriate because survival is clearly an attribute of long run success, especially in an economy that became characterised by take-over and merger activity and also the threat to vulnerable firms posed by the recession of 1980-1. Moreover, the sample size became more tractable, reducing to 182 companies. This in itself is a commentary on the instability of the British economy during the period. Of 3011 quoted companies trading in 1950, only 6% of them were still trading as independent organisations in 1984. For these surviving companies, relative success was measured by underlying accounting profitability. This was defined as return on capital employed (ROCE) or profit before interest and taxation divided by capital employed. In turn, capital employed is defined as long term liabilities plus shareholders equity.

There are several potential objections to using this approach. The first is that ROCE is unrelated to underlying economic profit, or internal rates of return (IRRs). Whether or not ROCE reflects economic profit, in performance measurement another problem is that cross sectional differentials in ARRs may reflect entry barriers and local monopolies rather than superior corporate performance *per se*.¹⁰ Nonetheless, in the context of business history research, the creation of entry barriers may be the consequence of successful entrepreneurship. This objection to the use of ROCE is overcome, therefore providing linkages between process and performance outcome.

Some distortion may also arise from the impact of inflation on the revenue streams and asset bases that form the numerator and denominator of the ROCE ratio. It was for this reason, amongst others, that the debate about declining profit rates in the 1970s proved difficult to resolve.¹¹ As far as the current survey is concerned, although historical cost figures are used throughout, they are applied uniformly and

consistently across the whole sample. The selection of accounting policies by management, for example depreciation charges, will also lead to divergence from the IRR, especially where asset growth rates differ. There is considerable US evidence of systematic cross sectional variation in accounting policies, particularly with respect to depreciation.¹² For these reasons, there has been a considerable debate as to whether ROCE can be relied upon at all.¹³

In view of these problems, reliance on historical cost based ROCE needs to reflect several considerations. One is the extent to which ROCE is used by the decision-makers whose behaviour is being analysed. ROCE remains, as Whittington suggests, 'the rule of thumb to which decision-makers cling' partly because whether accurate or not, it remains the only practical proxy.¹⁴ A second consideration is that much of this literature objects to the use of ROCE as a proxy for economic rates of return in competitive equilibrium or under conditions of monopoly,¹⁵ neither of which necessarily apply in any or all of the industries analysed in the current survey. Also discrepancies caused by the adoption of differing accounting policies tend to even out through time. Thus the likelihood of measurement error in ROCE is mitigated as the length of time of measurement increases.¹⁶

Bearing in mind theoretical objections to the implied relationship between ROCE and IRR, for the purposes of empirical work the proxy may be still suitable where certain conditions are met.¹⁷ One condition is that in a regression of ROCE and IRR, the cross sectional errors are likely to be unsystematic. For a large sample of companies, in different industries, across a number of years it is expected that this would be the case. Similar arguments apply to the objections that the effects of inflation and variation in accounting policies distort the ROCE. Finally, even if ROCE

does not proxy accurately for IRR, in comparative analysis it is sufficient that the two measures are correlated.

A final and important methodological issue in the use of these ratios arises from their statistical distribution. It is generally believed that ratios such as ROCE have non-normal cross sectional distributions.¹⁸ Consequently, it is very likely that if a sample of firms is compared across several years, at least some of the sample firms will record levels of ROCE beyond the range of a normal distribution. If ROCEs are to be compared through time, it is likely that some companies will have their averages distorted by the inclusion of large positive or negative atypical values.

To summarise these arguments, theoretical and empirical caveats are more likely to apply in cases where ROCEs are used to analyse firm performance in single industries or over a limited time horizon. Concerns about systematic distortions to ROCE in terms of accounting base or accounting policy are less relevant in studies that use data from a wide cross section of 19 industries. As far as possible, potential causes of measurement error, for example variation in depreciation policy and growth rates, should be quantified and controlled for in the empirical tests. The likely non-normality of the distribution remains an important potential problem because outlying observations can have a magnifying impact on the results of individual firms.

Bearing these methodological issues in mind, particularly the last point, further steps were taken to avoid the potential distortions arising from the use of ROCE. To begin with, average ROCE scores for the years 1950-1983 were computed for the 182 companies that traded continually during that period. However, because levels of profitability were likely to be industry dependent, relative ROCE scores were also computed. These were calculated by subtracting the industry average ROCE for the period from the individual ROCE score for each company. The result is hence

an excess return (ER) measured against an industry average hurdle rate. Industry averages were computed with reference to all the firms in the original sample rather than those companies in the reduced sample of survivors. Although this provided a ranking of firms according to a generally accepted profitability yardstick, it was clear that in crucial cases there were non-normality problems. The Thomson Organisation, which was the best performing company at this initial stage, exemplifies the case for further analysis. However, it achieved its position as a result of extraordinary returns of 281% in 1981 and 203% in 1982 and their disproportionate influence on the long run average ROCE. A possible strategy in some disciplines for dealing with outlying observations would be to normalise the distribution or even remove them from the distribution of returns altogether. However, for the business historian such extreme cases represent potentially interesting case studies.¹⁹ To control for the effects of outlying observations without modification or removal, the sample was subjected to a second non-parametric test of performance. For each year, commencing in 1950 through to 1983, the companies were ranked according to excess return. Each company was allocated a score between 1 and 182 according to its position for that year. Ranks were then summed for each company by firm for all years to obtain an aggregate rank score. Hence, low scoring companies would be those that consistently outperformed during the period. In contrast, a high ER might reflect abnormally strong performance in one or two uncharacteristic years.

These processes produced two league tables of best performing companies, one reflecting performance by rank score and the other by ER. Because they measure different aspects of performance, at least in so far as the underlying data is non-normally distributed, these were aggregated into one table using a simple average of the positions in the separate tables. This also allows for a certain economy of

presentation. Table 1 sets out the overall rankings of companies that resulted from this process. The first numerical column shows the rank score, that is, the sum of the ranks for all years, followed by another column showing aggregate rank achieved as a result. The next column shows the aggregate ER for 1950-1983 for each company and a further column shows the resulting ranking. The final column takes the simple numerical average of the two columns. As the sum of ranks was considered to be the stronger of the two tests, ties were resolved with reference to the rank score column. Also, because some firms were perhaps good performers but in weak sectors, Table 2 shows the best performing firm from each industry sector, using the same data as Table 1. The left-hand column refers to the overall position of the company in the data used to construct Table 1. For the purposes of the discussion below, the focus is on the best performing companies. Table 1 therefore shows the overall top 20 and Table 2 shows the top firm in each of the 19 industries analysed. Details of all 182 companies, calculated according to the methodology for Table 1, are shown in Appendix 1.

Table 1: Britain's 20 Best Performing Companies, 1950-1983, Overall Ranking

Position	Company	Industry	Rank Score	Rank Rank	ER Rank	Comb Rank
1	Ellis & Goldstein	Clothing & Footwear	36.382	18	6	24
2	Grattan Warehouses	Retail	42.941	25	4	29
3	WOLVERHAMPTON & DUDLEY	Drinks	16.324	3	28	31
4	Wagon Ind. Holdings	Vehicles	56.882	33	1	34
5	Goldberg and Sons	Wholesale	46.706	29	5	34
6	Initial Services	Services	46.676	28	7	35
7	Dowty	Vehicles	57.206	34	2	36
8	HEINZ (H J) CO	Food	9.500	1	35	36
9	Coates Group	Chemicals	45.353	27	10	37
10	Telephone Rentals	Transport	48.353	30	8	38
11	Matthew Hall and Co	Metal Goods	44.029	26	12	38
12	Glaxo	Chemicals	49.618	31	11	42
13	BTR	Other				
	BASSETT (GEO)	Manufacturing	40.618	24	20	44
14	HOLDINGS	Food	20.765	6	40	46
	Macmillan Bloedel					
15	Containers	Paper	29.676	13	36	49
16	Thomson Organisation	Paper	64.559	47	3	50
17	FH Tomkins	Metal Goods	61.559	37	13	50
18	Tesco	Retail	62.412	39	14	53
19	JH Fenner & Co	Engineering	52.353	32	22	54
20	Smith and Nephew	Textiles	62.559	40	15	55

Notes: Companies are shown in order of lowest combined rank. Ties are resolved with reference to rank scores.

Sources: Calculated from CDCD data.

Table 2: Britain's Best Performing Companies by Industry Sector, 1950-1983

Overall Position	Company	Industry	Rank Score	Rank Rank	ER Rank	Comb Rank
1	Ellis & Goldstein	Clothing & Footwear	36.382	18	6	24
2	Grattan Warehouses	Retail	42.941	25	4	29
3	WOLVERHAMPTON & DUDLEY	Drinks	16.324	3	28	31
5	Goldberg and Sons	Wholesale	46.706	29	5	34
4	Wagon Ind. Holdings	Vehicles	56.882	33	1	34
6	Initial Services	Services	46.676	28	7	35
8	HEINZ (H J) CO	Food	9.500	1	35	36
9	Coates Group	Chemicals	45.353	27	10	37
11	Matthew Hall and Co	Metal Goods	44.029	26	12	38
10	Telephone Rentals	Transport	48.353	30	8	38
13	BTR	Other Manufact.	40.618	24	20	44
15	Macmillan Bloedel	Paper	29.676	13	36	49
19	JH Fenner & Co	Engineering	52.353	32	22	54
20	Smith and Nephew	Textiles	62.559	40	15	55
30	London Brick	Brick	62.294	38	29	67
31	Yarrow & Co	Shipbuilding	82.029	61	9	70
38	CARRERAS	Tobacco	26.941	10	69	79
52	A Monk & Co.	Construction	76.794	55	56	111
64	Hoover	Electrical Eng.	83.147	63	70	133
82	May and Hassell	Timber	120.147	131	24	155
89	Birmid Qualcast	Metals	90.029	74	98	172
91	Allied Leather Industries	Leather	98.912	88	85	173
198	Sir Isaac Pitman & Sons	Paper	162.559	192	196	388

Notes: The table shows the best performing company in each industry sector. Companies are ordered according to combined rank position.

Sources: Calculated from CUDC data.

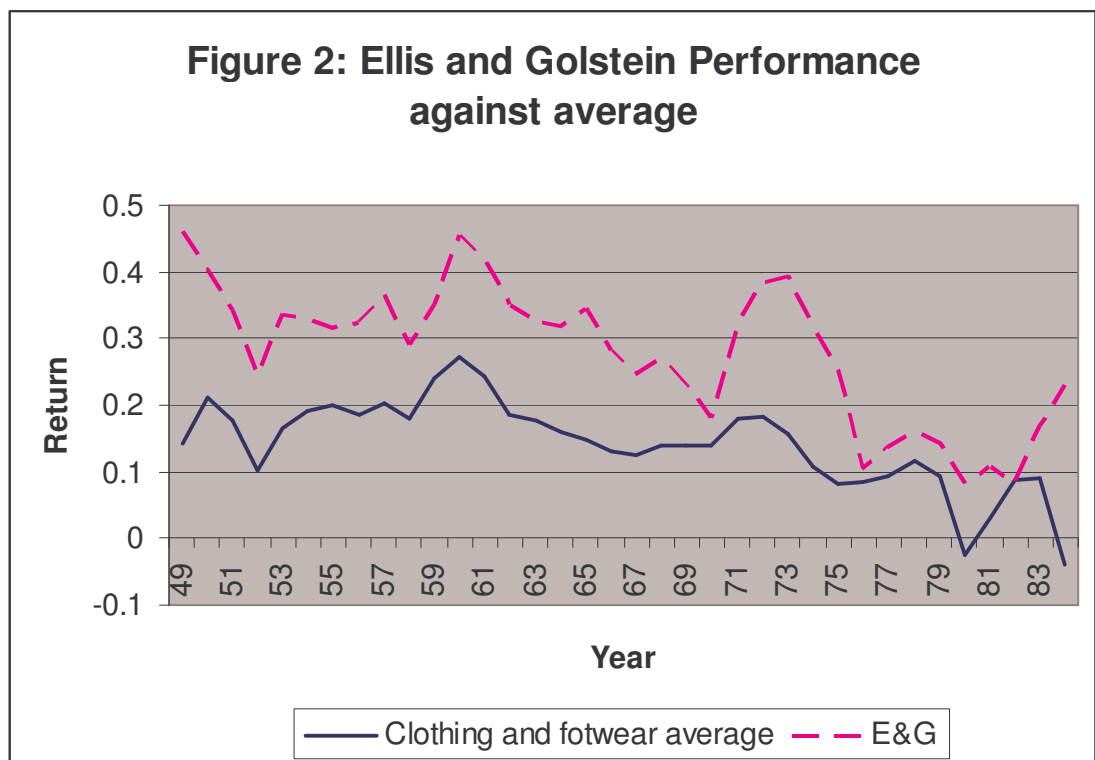
4. Case Studies and Discussion

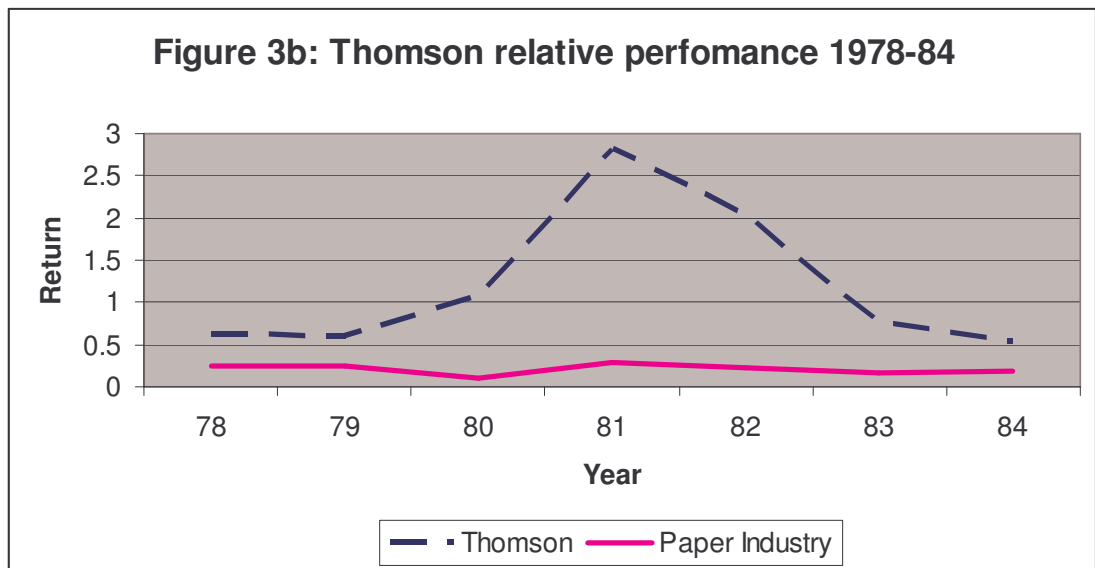
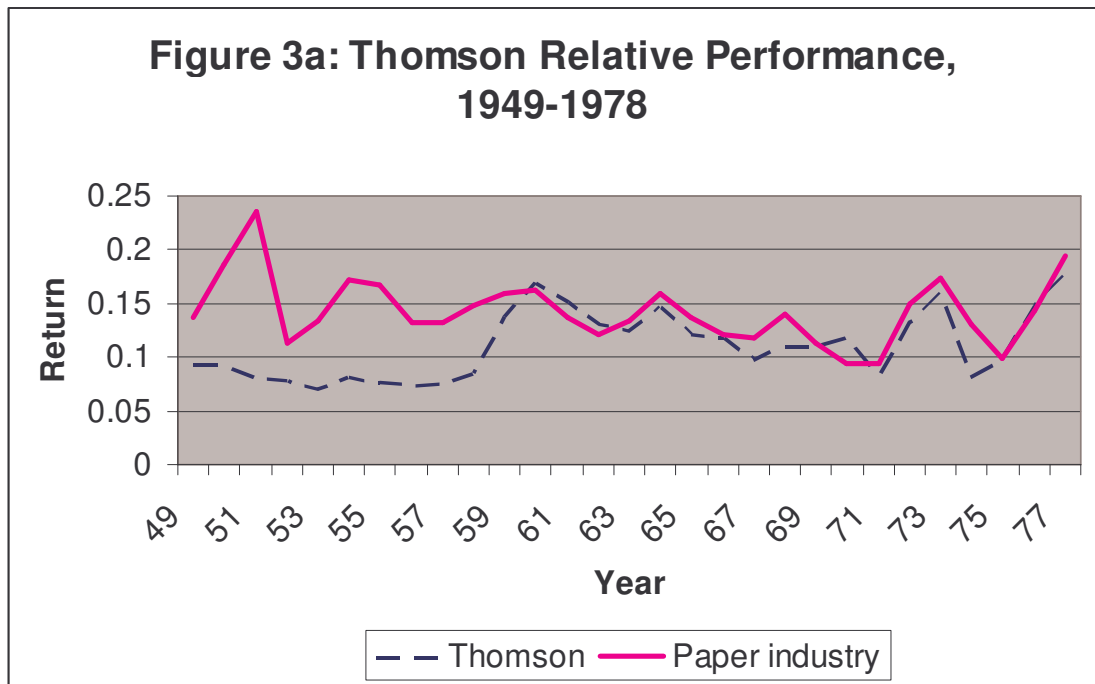
This research is exploratory and empirically driven. The discussion that follows is therefore a suggested research agenda and an attempt to draw only the most preliminary conclusions. Nonetheless, it is useful to consider explanations for success in selection of cases from Tables 1 and 2.

The results from Tables 1 and 2 suggest that Ellis and Goldstein was Britain's most successful company in financial terms between 1949 and 1983. As figure 2 shows, Ellis & Goldstein (E&G) was part of a declining sector, but throughout the period maintained a significant positive performance gap against its rivals. In general the company experienced decreasing returns as a function of its membership of a declining sector. The basis of the firm's long run success was marketing their brandnames such as *Elgora*, *Elgee* and *Eastex* and reliable links with major retailers that kept the factories and workshops extremely busy. Once the *Laura Lee* brandname had been added to the range in the 1950s, E&G established a wide reputation for its womenswear that acted as the basis of its commercial success. The firm experienced absolute increasing returns in the 1970s by extending its portfolio from C&A, Selfridges, and D.H. Evans, to include Marks & Spencer, Next and British Home Stores. At the same time they adapted their product range (to include by the 1970s coats, suits, dresses, skirts, slacks, knitwear and sportswear) to major fashion changes, given that womenswear was extremely vulnerable to these pressures. A further upturn in absolute returns was achieved in the 1980s, when E&G opened its own leisurewear shopping chain, Dash.²⁰

The managerial competences crucial to success were effective control over design and production, successful marketing through established brandnames, and working closely with major retailers to ensure a reliable supply of orders. The general

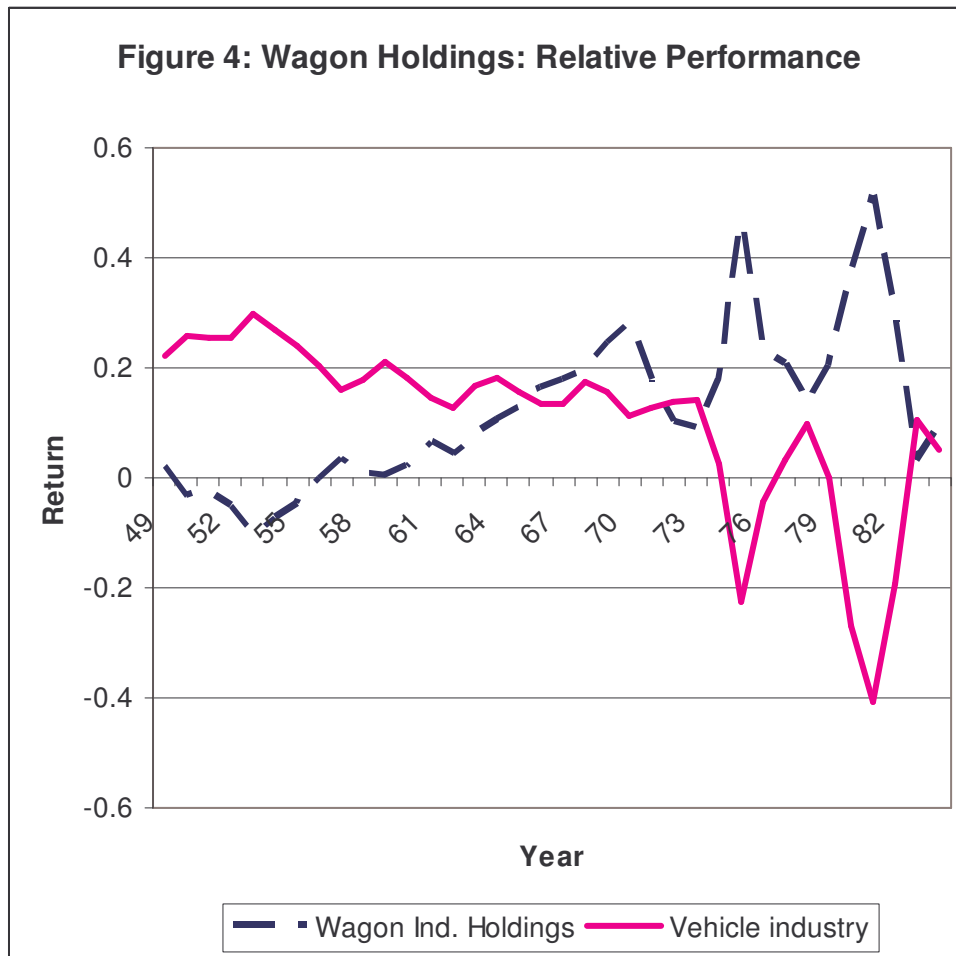
decline in the market and the firm's relative profitability meant that acquisitions, for example Bent & Son Ltd in the 1950s, were funded almost entirely from reserves, while further factory extensions were made in 1965 (in Stockton-on-Tees). As the above review suggests, Ellis and Goldstein was built on strong, tightly focused brands. The 'Eastex' and 'Dash Leisurewear' brands allowed the company to build reputation for quality. Selling to niche markets, these offered profile but low vulnerability to rent rises. However, strong brands made the company attractive to predators and the company was taken over by Alexon in 1988. After the take-over, Alexon management over-extended the Dash brand by opening too many shops in high rental locations. Eastex, meanwhile, remained 'the jewel in the crown' with 'the most amazing customer allegiance, probably because there is no direct competition'.²¹ Thus, brand-based strategies offered potentially profitable niche-based alternatives to growth orientation and cost leadership through economies of scale.





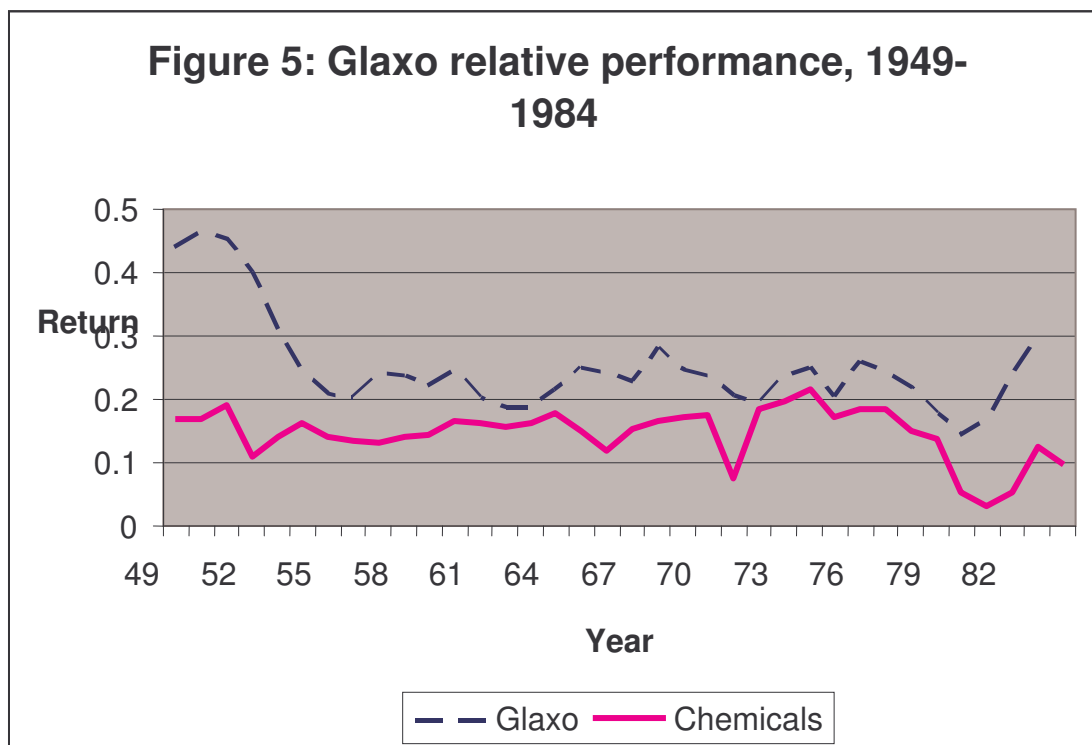
Against the backdrop of a generally expanding and profitable industry, Thomson Organisation (16th overall, table 1) achieved relative and absolute increasing returns as a result of a strategy to dominate markets through financial acquisition (figure 3a). Roy Thomson's strategy was expansion of the firm's base of the *Sunday*

Times (including *The Times* from 1967) newspaper through integration of other regional, trade and technical newspapers and related diversification into new media such as commercial television. He used financial control to manage the growth of the business effectively overseeing a number of acquisitions that enhanced the cash generation potential of the business, and commented 'I would sooner take a balance sheet home to read than a book'.²² Thomson's string of successful acquisitions boosted profits to record level in 1964.²³ Meanwhile he improved production efficiency and market appeal by investment in a new plant away from Fleet Street using young non-union labour adopting US style multi-coloured web offset litho printing processes and computerised typesetting.²⁴ These were strategising investments, since by making them Thomson was able to establish a long run advantage over unionised competitors that would take the rest of Fleet Street 20 years to realise. Meanwhile from 1965 the firm began a strategy of expansion into educational services and publishing through new acquisitions underpinned the organisation's ambition to serve the broader social and economic life of the nation.²⁵ From Thomson's point of view the downside of the acquisition strategy was that it also acquired unionised workers, notably at *The Times* and the company was increasingly embroiled in industrial disputes in the 1970s, culminating in a prolonged stoppage at Times Newspapers in 1980 and the subsequent sale of the division. Although profitability was damaged in publishing interests, the diversification strategy yielded counter-balancing profit opportunities particularly in travel and North Sea oil exploration resulting in short-lived, but dramatically increasing returns (figure 3b).²⁶ Success associated with continued acquisitions in these areas helped maintain Thomson's strong relative profitability record into the 1980s.



Wagon Industrial Holdings (4th overall, table 1) moved from the stable but slowly declining railway freight wagon repair sector through a series of acquisitions into new areas which were by the late 1970s highly profitable and counter-cyclical. Like Thomson, Wagon’s management concentrated on deploying the firm’s capital in profitable sectors rather than developing internal competences. Focusing on the design, engineering and manufacture of vehicle body structures for the European automotive industry, Wagon expanded significantly from its initial base of through a process of diversification, acquisition and international expansion generating increasing returns from the 1960s onwards. Formed in 1918 by a group of railway freight wagon manufacturers, what was until 1974 known as Wagon Repairs Ltd prospered as a result of abundant orders from its creators. It went public in 1936, at

which point several other wagon repair and manufacturing businesses were absorbed into a larger operation based in Birmingham. As a result of railway nationalisation in 1946, their business declined, prompting management to initiate a diversification strategy that saw them move into office furniture and retail storage through the acquisition of Handy Angle Co in 1951. By 1979, the railways repairs business had been sold, with the funds invested in the development of automotive components manufacturing. In 1980, they also purchased the French company Vinco, to boost its office furniture business. Repositioning the business along these lines generated increasing absolute returns in the late 1970s and early 1980s (figure 4). Adaptation, diversification and acquisitions ensured WIH would continue to generate solid returns in an otherwise static market.²⁷



Although originally a New Zealand-based firm specialising in dried milk, by the 1920s what had been known as Joseph Nathan & Co. became better known by its brand-name, Glaxo (12th table 1). Glaxo Laboratories Ltd was founded in 1935 as the base for the new pharmaceutical businesses under a bright young chemist, Harry Jephcott. After WW2, the firm created dynamic capability by using investment in research and development to expand markets which it could then dominate. Using a combination of extensive internal research and development programmes and acquiring licences from American firms for promising new drugs, Glaxo prospered during and after the Second World War, building a range of products that were highly regarded. Jephcott, however, was well aware of the overwhelming competitive pressures from much larger American pharmaceutical firms, prompting him to acquire one of Glaxo's major British competitors, Allen Hanbury, in 1958, and Evans Medical Ltd in 1960. In 1971, Glaxo also attempted to purchase Beecham's, one of the UK's leading pharmaceutical firms, but this was blocked by the government. Size alone, on the other hand, was no defence against competitors.

In contrast the key to success was developing commercially-viable drugs that would sell globally, a strategy that Glaxo pursued relentlessly throughout the post-war era, but especially under Alan Wilson as chairman from 1963 and Paul Girolami as finance director from 1968. This was complemented by building a more robust marketing organisation, as well as the construction of manufacturing plants in France and Germany, reflecting the switch from the Commonwealth to Europe as the mainstay of Glaxo's sales. This was followed in 1978 by the acquisition of Meyer Laboratories, a small American pharmaceutical firm that provided Glaxo with an entrée into the enormous US market. The crucial ingredient, however, was the production of highly successful drugs such as Zantac, an anti-ulcerent, which was

launched in 1981, which placed the firm second behind Merck in terms of global sales, with substantial income emanating from the US market, creating rapidly increasing returns (figure 5). The keys to success would consequently appear to have been significant investments in R&D, robust marketing and acquisitions and investments in Europe and the USA.²⁸

The four case studies are designed to show how corporate success and SCA might be achieved in different ways. In each case the long run reason for competitive advantage is set out as well as the specific period of increasing returns has been highlighted and mapped historically against the specific determinants of competitive advantage. These are summarised in figure 6.

Figure 6: Case study summary

		Market growth rate	
		High	Low
Resource characteristics	Heterogeneous endowment	Thomson Organisation Long run SCA: Diversification through acquisition, defensive investment in technology Increasing returns: Unrelated diversification, 1978-1984	Wagon Industrial Holdings Long run SCA: Diversification financed by disposals of declining core business Increasing returns: Disposals & repositioning 1977-1984
	Dynamic capabilities	Glaxo Long run SCA: investment in R&D to create dynamic capabilities Increasing returns: development of Zantac and US market entry, 1978-84	Ellis and Goldstein Long run SCA: maintenance and development of brands Increasing returns: Development of partnerships with major retailers and expansion of branded range, 1970-75

The cases illustrate some important differences and similarities. For example if we compare Thomson and Wagon, both carried out similar diversification strategies, the difference being that Wagon financed its activities from the disposal of core businesses whereas Thomson financed its diversification using external sources allowing it to add new activities whilst keeping its core business intact. When compared to Glaxo, Thomson rested much more obviously on strategising to achieve dominance in key markets, for example restricting competitors by developing non-

union plants equipped with newer technology that competitors could not emulate. Glaxo's investment in competences and organisational learning whilst simultaneously stimulating demand for its products, provides a more obvious example of the dynamic capabilities route to SCA. Both Glaxo and E&G had brand based strategies, but the former demonstrated a much greater dependency on external capital suppliers, whereas E&G's niche-based strategy did not create a similar dependency. E&G, like Glaxo relied on developing managerial competences to sustain its key intangible assets, in contrast to wagon which purchased such expertise on the open market through acquisition.

The case studies discussed above and summarised in figure 6 provide some preliminary evidence in favour of the taxonomy of SCA developed from the theoretical discussion above. A limitation, apart from the obvious need for further cases to be analysed as a necessary step prior to drawing definitive conclusions, is the use of the industry benchmark. In two cases, Thomson and Wagon, diversification was a significant element of their strategy, and such diversification took them outside their original sector. To control for this, Thomson and Wagon returns were also compared to the average benchmark for the whole sample of firms in the CUCD database. There was no significant difference in terms of the relative position of these firms as a result either in the long run or in the periods associated with increasing returns summarised in figure 6.

6. Conclusions

This paper presents preliminary research into the ranking of the UK's most enduringly profitable companies *throughout* the period 1950-1983. Thus far only four companies have been analysed, and these cases have been selected particularly to show the

possibility of the four different ways to achieve SCA set out in the theory development section of the paper. Further case studies need to be added to test the robustness of this framework. Further work within the four case studies is needed on the financing and governance arrangements at specific crucial junctures and to establish iterative path dependency between sunk investments and subsequent ability to raise and deploy capital in a profitable manner.

According to the framework, each strategy has an exclusive and an overlapping element depending on how the firm develops and finances its key assets. SCA through dynamic capability can be achieved for example with or without significant support from external capital suppliers. However the availability of external capital places constraints on the ability of managements to develop turnaround and subsequent expansion strategies.

The research agenda sketched above suggests the issue of governance, especially regarding the impact of family block shareholdings and associated capital market inefficiencies, requires detailed analysis. This will form part of a major research agenda arising from the results presented in this paper. In the meantime, we hope the evidence presented above provides sufficient justification for our belief that there is a need to use alternative measures of business success and, therefore, the need to develop alternative paradigms of the business strategies which lead to that success.

Appendix 1

Britain's Best Performing Companies, 1950-83: Full Sample Listing

Position	Company	Industry	Rank Score	Rank Rank	ER Rank	Comb Rank
1	Ellis & Goldstein	Clothing & Footwear	36.382	18	6	24
2	Grattan Warehouses	Retail	42.941	25	4	29
3	WOLVERHAMPTON & DUDLEY	Drinks	16.324	3	28	31
4	Wagon Ind. Holdings	Vehicles	56.882	33	1	34
5	Goldberg and Sons	Wholesale	46.706	29	5	34
6	Initial Services	Services	46.676	28	7	35
7	Dowty	Vehicles	57.206	34	2	36
8	HEINZ (H J) CO	Food	9.500	1	35	36
9	Coates Group	Chemicals	45.353	27	10	37
10	Telephone Rentals	Transport	48.353	30	8	38
11	Matthew Hall and Co	Metal Goods	44.029	26	12	38
12	Glaxo	Chemicals	49.618	31	11	42
13	BTR	Other Manufacturing	40.618	24	20	44
14	BASSETT (GEO) HOLDINGS	Food	20.765	6	40	46
15	Macmillan Bloedel Containers	Paper	29.676	13	36	49
16	Thomson Organisation	Paper	64.559	47	3	50
17	FH Tomkins	Metal Goods	61.559	37	13	50
18	Tesco	Retail	62.412	39	14	53
19	JH Fenner & Co	Engineering	52.353	32	22	54
20	Smith and Nephew	Textiles	62.559	40	15	55
21	MAYNARDS	Food	15.000	2	54	56
22	Currys	Retail	63.441	42	17	59
23	CADBURY SCHWEPPE'S	Drinks	21.118	7	52	59
24	Nottingham Manufacturing Co	Textiles	64.206	45	16	61
25	Gestetner Holdings	Engineering	58.029	35	26	61
26	Marks and Spencer	Retail	63.735	44	18	62
27	Concentric	Metal Goods	60.206	36	27	63
28	THWAITES (DANIEL) & CO	Drinks	22.441	8	58	66
29	UNITED BISCUITS (HOLDING	Food	17.824	4	62	66
30	London Brick	Brick	62.294	38	29	67
31	Yarrow & Co	Shipbuilding	82.029	61	9	70
32	Beecham Group	Chemicals	62.794	41	31	72
33	Glynwed	Metal Goods	63.618	43	30	73
34	British Home Stores	Retail	73.853	53	21	74
35	Granada Group	Services	77.471	56	19	75
36	GUS	Retail	71.382	50	25	75
37	Coalite	Chemicals	64.382	46	32	78

38	CARRERAS	Tobacco	26.941	10	69	79
39	Automotive Products	Vehicles	78.088	58	23	81
40	Corah	Textiles	75.382	54	33	87
41	SCOTTISH & NEWCASTLE	Drinks	29.294	12	75	87
42	Associated Book Publishers	Paper	31.412	15	73	88
43	Armstrong Equipment	Engineering	70.853	49	41	90
44	DAVENPORTS BREWERY	Drinks	30.882	14	80	94
45	Boots	Chemicals	73.647	52	44	96
46	Bulmer and Lumb Holdings	Textiles	85.500	65	34	99
47	Bestobell	Engineering	72.500	51	50	101
48	Pegler Hattersley VAUX & ASSOC.	Metal Goods	77.588	57	46	103
49	BREWERIES	Drinks	32.147	16	90	106
50	BASS	Drinks	32.206	17	92	109
51	Redland	Brick	79.618	60	51	111
52	A Monk & Co.	Construction	76.794	55	56	111
53	TATE & LYLE	Food	25.971	9	102	111
54	Foster Bros	Retail	90.559	75	37	112
55	Donald McPherson Group	Chemicals	82.294	62	53	115
56	Highams	Textiles	89.529	71	45	116
57	Thomas Locker Holdings ROWNTREE	Metal Goods	89.176	69	48	117
58	MACKINTOSH	Food	27.471	11	111	122
59	Westland Aircraft	Vehicles	98.029	85	38	123
60	H Samuel	Retail	94.765	81	42	123
61	BPB Industries	Brick	86.559	66	57	123
62	Hopkinsons Holdings	Engineering	87.118	67	59	126
63	SW Berisford	Wholesale	93.382	78	49	127
64	Hoover	Electrical Eng.	83.147	63	70	133
65	Expanded Metal Co	Metal Goods	89.471	70	64	134
66	Parkland Textile Holdings IMPERIAL TOBACCO	Textiles	93.971	80	55	135
67	GROUP	Tobacco	36.765	19	116	135
68	Marley News of the World	Brick	89.912	73	63	136
69	Organisation	Paper	66.882	48	89	137
70	Aberdeen Construction	Construction	89.706	72	66	138
71	WHITBREAD & CO	Drinks	38.294	20	119	139
72	W. Canning &Co	Electrical Eng.	78.618	59	82	141
73	Portals Holdings	Paper	91.500	76	67	143
74	Reed International	Paper	19.353	5	138	143
75	Trust House Forte	Services	95.618	83	61	144
76	Tarmac	Brick	93.882	79	65	144
77	Thorn Electrical Industries	Electrical Eng.	88.912	68	76	144
78	Laird Group	Shipbuilding	109.265	108	39	147
79	Asprey & Co	Retail	105.029	101	47	148
80	AAH	Wholesale	99.118	89	60	149
81	Culter Guardbridge Holdings	Paper	85.118	64	88	152
82	May and Hassell	Timber	120.147	131	24	155
83	Whessoe	Engineering	96.265	84	71	155

84	Law and Bonar	Textiles	100.882	92	68	160
85	Steeley	Brick	98.441	87	79	166
	Barr and Wallace Arnold					
86	Trust	Transport	101.059	94	74	168
87	Turner and Newall	Textiles	104.206	98	72	170
88	GN Haden & Sons	Construction	100.853	91	81	172
89	Birmid Qualcast	Metals	90.029	74	98	172
90	CAVENHAM FOODS	Food	38.500	21	151	172
91	Allied Leather Industries	Leather	98.912	88	85	173
92	Smiths Industries	Metal Goods	104.500	100	77	177
93	Mitchell Somers	Engineering	102.529	95	83	178
94	Chubb	Metal Goods	104.029	97	86	183
95	Delta Metal Co	Metals	98.206	86	97	183
96	Bowater Paper Corp	Paper	39.500	22	161	183
	RANKS HOVIS					
97	MCDUGALL	Food	39.941	23	162	185
98	Unilever	Chemicals	105.559	102	84	186
99	Yorkshire Chemicals	Chemicals	104.324	99	87	186
100	Cope Allman & Co	Metals	95.500	82	104	186
		Clothing &				
101	Sears Holdings	Footwear	108.235	104	91	195
102	John Brown and Co	Shipbuilding	108.265	105	93	198
103	Weir Group	Engineering	108.618	106	95	201
	W Tyzack and Sons and					
104	Turner	Metal Goods	136.059	160	43	203
105	S Radcliffe (Greatbridge)	Metals	101.029	93	113	206
106	Manders Holdings	Chemicals	109.412	109	99	208
107	Boosey and Hawkes	Metal Goods	108.824	107	101	208
108	Danish Bacon Co	Wholesale	115.912	122	100	222
109	Associated Engineering	Engineering	114.206	119	105	224
110	Deritend Stamping Co	Metal Goods	114.176	118	109	227
111	Plessey	Electrical Eng.	112.265	115	112	227
112	Sidlaw Industries	Textiles	118.647	127	103	230
113	Associated Hotels	Services	117.412	124	107	231
114	Valor	Metal Goods	111.265	113	118	231
115	Arthur Lee and Sons	Metals	106.853	103	130	233
116	Fitch Lovell	Wholesale	127.294	141	94	235
117	Wilmot Breeden Holdings	Vehicles	118.000	125	110	235
		Clothing &				
118	Steinberg & Sons	Footwear	114.353	120	115	235
119	W&C French	Construction	92.941	77	158	235
120	Ruberoid	Brick	120.118	130	106	236
	Chloride Electrical Storage					
121	Co.	Electrical Eng.	111.441	114	123	237
122	John Foster and Son	Textiles	120.765	132	108	240
123	Neepsend Steel and Tool	Metals	102.765	96	144	240
124	FH Lloyd & Co	Metals	110.529	110	137	247
125	WH Smith	Retail	132.353	153	96	249
	Manganese Bronze					
126	Holdings	Metals	114.853	121	132	253

	Ransom and Marles Bearing					
127	Co	Engineering	121.853	134	120	254
128	J Lucas Industries	Electrical Eng.	118.500	126	128	254
129	De La Rue	Paper	147.941	178	78	256
130	Bridport Gundry	Textiles	127.235	140	117	257
131	Carpets International	Textiles	114.118	117	140	257
132	Metal Box Co	Metal Goods	124.382	136	122	258
	Westminster & Country					
133	Properties	Services	123.706	135	124	259
134	National Sunlight Laundries	Services	130.118	146	114	260
135	Rotary Hoes	Engineering	110.882	111	150	261
136	Taylor Woodrow	Construction	126.147	138	125	263
137	Barrow Hepburn Group	Leather	125.559	137	126	263
138	Ferranti	Electrical Eng.	120.941	133	131	264
139	Bath and Portland Group	Brick	127.206	139	129	268
	Manc Guardian & Evening					
140	News	Paper	100.176	90	181	271
141	Johnson Matthey	Metal Goods	119.147	129	145	274
		Other				
142	Avon Rubber	Manufacturing	111.118	112	164	276
143	Blue Circle	Brick	129.500	144	133	277
	Richard Johnson and					
144	Nephew	Metal Goods	128.471	143	134	277
145	Henlys	Retail	127.529	142	143	285
146	Rugby Portland Cement	Brick	131.059	150	136	286
	Richardsons Westgarth &					
147	Co	Shipbuilding	113.647	116	176	292
148	Associated Paper Mills	Paper	130.176	147	146	293
149	WGI	Engineering	130.529	148	149	297
		Other				
150	Dunlop	Manufacturing	116.853	123	174	297
151	BOC	Chemicals	134.412	156	142	298
152	Francis Industries	Metal Goods	135.029	158	141	299
153	House of Fraser	Retail	148.324	179	121	300
154	George Cohen 600 Group	Wholesale	138.235	166	135	301
155	Baker Perkins Holdings	Engineering	135.676	159	148	307
156	Kenning Motor Group	Retail	151.618	182	127	309
157	BICC	Electrical Eng.	134.559	157	152	309
158	GEC	Electrical Eng.	133.382	155	154	309
159	Mowlem	Construction	136.971	163	147	310
160	George Spencer	Textiles	130.588	149	169	318
161	English calico	Textiles	137.882	164	155	319
162	Cookson (Lead Industries)	Chemicals	140.265	167	153	320
	Goodyear Tyre and Rubber	Other				
163	Co.	Manufacturing	118.676	128	193	321
	Tozer Kemsley and					
164	Millbourn	Wholesale	131.794	151	172	323
165	GKN	Metal Goods	143.324	171	156	327
166	Savoy Hotel	Services	142.412	168	159	327
167	Renold	Engineering	138.147	165	163	328

168	Davy Ashmore	Engineering	136.088	161	168	329
169	United Newspapers	Paper	165.588	193	139	332
170	Whitecroft	Textiles	145.941	175	157	332
171	Vauxhall Motors	Vehicles	132.000	152	180	332
172	Babcock and Wilcox	Engineering	146.941	176	160	336
		Clothing &				
173	Selincourt	Footwear	133.118	154	187	341
174	Illingworth Morris	Textiles	147.559	177	167	344
175	Duport	Timber	129.824	145	199	344
176	ICI	Chemicals	153.853	183	165	348
177	Tube Investments	Metals	144.118	173	177	350
178	Rank Organisation	Services	145.559	174	179	353
179	Berry Wiggins	Chemicals	136.588	162	194	356
180	British Ropes (Bridon)	Metal Goods	156.912	187	170	357
181	Staveley Industries	Metals	143.529	172	186	358
182	Powell Duffryn	Wholesale	158.912	190	171	361
183	Owen and Owen	Retail	170.559	196	166	362
184	Fisons	Chemicals	157.559	189	175	364
185	Union International	Transport	150.294	181	183	364
	International Computers					
186	Holdings	Engineering	142.853	169	195	364
187	Laporte	Chemicals	149.941	180	185	365
188	Brookhouse, J. and Co	Metal Goods	157.559	188	178	366
189	British Electric Traction	Transport	155.529	184	184	368
		Other				
190	Uniroyal	Manufacturing	142.941	170	198	368
191	Austin Reed Group	Retail	172.794	197	173	370
192	William Baird	Brick	155.529	185	189	374
193	Lister & Co	Textiles	156.382	186	190	376
194	Debenhams	Retail	177.118	198	182	380
		Clothing &				
195	Burton Group	Footwear	167.206	195	191	386
196	Vickers	Engineering	166.353	194	192	386
197	John Lewis and Co	Retail	179.088	199	188	387
198	Sir Isaac Pitman & Sons	Paper	162.559	192	196	388
199	Heywood Williams Group	Metal Goods	161.059	191	197	388
200	Chrysler UK	Vehicles	179.529	200	200	400

¹ Sustainable above-normal returns (Peteraf, 1993); bundles of resources (Amit and Schoemaker, 1993; Rumelt, 1984); VRIN Barney, J.B. and D.N. Clark (2007) *Resource based theory: Creating and sustaining competitive advantage*. 2nd Ed., Addison Wesley.

² Even the dynamic capabilities approach in the RBV (Teece et al, p.518) does not adopt an explicitly historical perspective, instead referring to increasing returns, path dependencies and learning processes. Teece DJ, Pisano G, Shuen A. (1997), 'Dynamic capabilities and strategic management,' *Strategic Management Journal* 8(7): 509–533.

³ J.S. Toms, 'Financial Constraints on Economic Growth: Profits, Capital Accumulation, and the Development of the Lancashire Cotton Spinning Industry, 1885-1914,' *Accounting Business and Financial History*, Vol. 4 (3), (1994) pp. 364-383. D.M. Higgins and J.S. Toms, 'Firm Structure and Financial Performance, The Lancashire Textile Industry,' *Accounting Business and Financial History*, Vol 7, (1997); pp. 195-232. J.S. Toms, 'Windows of Opportunity in the Textile Industry: The Business Strategies of Lancashire Entrepreneurs 1880-1914,' *Business History*, Vol. 40 (1998), pp.1-25. D.M. Higgins and J.S. Toms (2000), 'Public Subsidy and Private Divestment: The Lancashire Cotton Textile Industry,' *Business History*, Vol. 42(1), pp.59-84. I. Filatotchev and J.S. Toms, 'Corporate Governance, Strategy and Survival in a Declining Industry: A Study of Lancashire Textile Companies', *Birkbeck College Discussion Paper* (2000).

⁴ Teece et al, 1997, p.518.

⁵ Teece et al 1997, p.515.

² R.N. Langlois and P.L. Robertson, *Firms, Markets and Economic Change: A Dynamic Theory of Business Institutions* (London, 1995). P. Scranton, *Endless Novelty: Speciality Production and American Industrialization, 1865-1925* (Princeton, 1997). A. Chandler, *Scale and Scope: The Dynamics of Industrial Capitalism*, Cambridge Mass.: Belknap Press (1990).

⁷ Rumelt RP. 1987. Theory, strategy and entrepreneurship. In *The Competitive Challenge*, Teece DJ (ed). Harper & Row: New York; 137–158.

⁴ The database is available in Microsoft Excel in CD-ROM format from the Data Archive, University of Essex.

⁹ Three industries were excluded from the survey because there were no firms in the database that survived continuously between these dates. These were Mining, Quarrying, Oil and Petroleum.

¹⁰ Long, W.F. and D. J. Ravenscraft, 'The Misuse of Accounting Rates of Return: Comment,' *American Economic Review*, Vol. 74, No. 3, (1984) pp. 494-500.

¹¹ The key analyses of this debate are contained in: W.E.Martin, *The Economics of the Profits Crisis* (London, HMSO), 1981, p.70; G. Meeks, 'Profit illusion', *Oxford Bulletin of Economics and Statistics*, 36 (1974), pp.267-285; M.Panic and R.E.Close, 'Profitability of British Manufacturing Industry', *Lloyds Bank Review* July, 1973, pp.17-30; J.S.Fleming, et.al., 'The cost of capital, finance and investment', *Bank of England Quarterly Bulletin*, June, 1976, pp.193-205; J.S.Fleming et. al., 'Trends in company profitability', *Bank of England Quarterly Bulletin*, March, 1976, pp.36-52; J.R.Sargent, 'Productivity and profits in UK manufacturing', *Midland Bank Review*, Autumn, 1979, pp.7-13; M.A. King, 'The United Kingdom profits crisis: myth or reality?', *Economic Journal*, 85 (1975), pp.33-54; T.P. Hill, *Profits and Rates of Return* (OECD, 1979).

¹² For a summary, see Salamon, G.L., Accounting Rates of Return, *American Economic Review*, Vol. 75, No. 3 (June, 1985), pp. 495-504.

¹³ See especially Fisher, F. M. and J.J. McGowan, 'On the Misuse of Accounting Rates of Return Ratio to Infer Monopoly Power', *American Economic Review*, Vol. 73, No. (March, 1987), pp. 82-97. For a summary, of these arguments see Steele, A., 'Further Notes on Estimating Economic Returns from Published Accounting Statements', *Journal of Business Finance and Accounting*, Vol. 22, No. 7 (Spring, 1995), pp. 923-938.

¹⁴ Whittington, G. (1979), On the Use of the Accounting Rate of Return in Empirical Research', *Accounting and Business Research*, Vol. 9, No. 35 (Summer), pp. 201-208.

¹⁵ Fisher, F. M. and J.J. McGowan, 'On the Misuse of Accounting Rates of Return Ratio to Infer Monopoly Power', *American Economic Review*, Vol. 73, No. (March, 1987), pp. 82-97. As pointed out by Long and Ravenscraft 'The Misuse of Accounting', criticisms of ARR's have been levelled in the context of structure and performance in specific industries or extreme analytical cases.

¹⁶ Steele, A. (1995), 'Further Notes on Estimating Economic Returns from Published Accounting Statements', *Journal of Business Finance and Accounting*, Vol. 22, No. 7 (Spring), pp. 923-938.

¹⁷ For a summary of these arguments in the general case, see Whittington (1979).

¹⁸ Barnes, P. (1982), 'Methodological Implications of Non-Normally Distributed Financial ratios', *Journal of Business Finance and Accounting*, Vol. 9 No. 1 (Spring), pp. 51-62. Ezzamel, M., C. Mar-Molinero, and A. Beecher (1987), 'On the Distributional Properties of Financial ratios in UK Manufacturing companies', *Journal of Business Finance and Accounting*, Vol. 14, No. 1 (Spring), pp. 463-481.

¹⁹ In the case of Thomson Organisation, extraordinary returns were attributable a major reduction in the company's capital base and large increase in profits due to the sale of £132m of marketable securities, following the disposal of Times Newspapers.

²⁰ A. Godley, A. Kershen & R. Schapiro, 'Fashion and its impact on economic development of London's East Endwomenswear industry, 1929-62: the case of Ellis & Goldstein', *Textile History*, 34, 2 (2003), pp.214-28; Miscellaneous press cuttings.

²¹ John Osborn, Alexon Chief Executive cited in C. Kennedy, 'Fifty and still Nifty', *Director*, Oct97, Vol. 51(3), p.30.

²² 'A thrusting but genial tycoon', *The Times*, 1st December, 1960.

²³ 'Record profits', *The Times*, 23rd March 1965.

²⁴ 'Computerised news', *Economist*, 27th March 1965, pp.1414-15. The firm had always resisted union recognition, an attitude which, according to the *Economist*, 17th May 1952, p.431, amounted to 'economic Bourbonism'.

²⁵ *The Times* 20th April, 1965. Hamish Hamilton was a leading acquisition in the publishing industry (*The Times*, 22nd November, 1965).

²⁶ 'Putting profits to work', *The Times*, 20th May, 1980.

²⁷ WIH web site – John please give URL and date visited.

²⁸ G. Owen, *From Empire to Europe. The Decline and Revival of British Industry since the Second World War*, HarperCollins 1999; R.P.T. Davenport Hines and J.Slinn, *Glaxo: A History to 1962*, Cambridge University Press, 1992.