



ECONOMIC  
CONTROVERSIES



# CONFRONTING MANAGERIALISM

HOW THE BUSINESS ELITE  
AND THEIR SCHOOLS THREW  
OUR LIVES OUT OF BALANCE

ROBERT R. LOCKE & J.-C. SPENDER

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*To the many victims of managerialism*

“The owl of Minerva takes flight at dusk.”

– *G. F. W. Hegel*

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RRL

JCS

## Preface

As historians, we are keenly aware that our focus is on the thoughts and actions of the three generations who lived through the period covered in this study – from the Great Depression of the 1930s to the present. But we also know that “dumb” facts do not speak for themselves, and that to give them a voice we need a narrative line. Ours can be identified from the components of our title, and it is simple. Today the people of the USA, indeed the world, live in difficult times, and to a significant extent American managerialism and US business schools have exacerbated these difficulties. Their ideas and actions shape the US and world economies and thus many lives.

Notice our title deals with managerialism, not management. Management is a big topic that cannot be properly treated here. Our focus is narrower, on managerialism. Although by the middle of the twentieth century the American idea of management had been more or less subsumed by managerialism, management and managerialism are not coextensive. While management can be defined as getting things done in organizations through people, managerialism means that in businesses, managers have come to view themselves as a professional caste.

The distinction between managing and managerialism allows us to criticize managerialism without denigrating the critically important function of management.

Managerialism is defined as follows:

What occurs when a special group, called management, ensconces itself systemically in an organization and deprives owners and employees of their decision-making power (including the distribution of emoluments) – and justifies that takeover on the grounds of the managing group’s education and exclusive possession of the codified bodies of knowledge and know-how necessary to the efficient running of the organization. (Locke, 2009, 28)

The managerialist caste arose in the mid-twentieth century as the post–World War Two economy boomed. Its public face was the reputation for commercial brilliance the boom implied. Yet the connection is far from obvious; many other causes can be cited. So, far from presuming the changes in management technique and attitude were beneficial, our book examines the damaging impacts this caste and its practices had in other ways, for instance, on people’s ability to make sense of their existence in a globalized society and economy as the twentieth century drew to a close. Without wishing to evoke a previous “golden age,” our narrative line moves from managing in a place where life was relatively in balance to one in which, in part because of the effect of managerialism, life spun progressively out of balance. The expression is taken from the Hopi word *Koyaanisquatsi*, which means “crazy life, life in turmoil, life out of balance, life disintegrating, a state of life that calls for another way of living.” Or, for those with religious inclinations, an existence without God’s grace; or, for humanists, one devoid of humanity in people’s daily lives.

With the history of managerialism as one theme, our book’s companion topic is business school education. Managers get

their education in a variety of ways today, usually on the job. Increasingly, however, the selection and training of managers has become the focus of business-school-based education. Thus we critique the US elite business schools whose growth in the twentieth century has been associated with the rise of managerialism (Locke 1984, 1989, 1996, 2000, 2009; Spender 2005, 2007, 2008a, 2008b, 2008c). The elite schools' influence over the lesser-ranked schools around the world is huge, especially when it comes to the content of their programs and the ethos their programs inculcate. The management education industry is now vast and global, but almost all of it marches to these elite schools' drummers. Harvard Business School, which opened in 1908, has just celebrated its centennial while the Wharton School, arguably the first modern US business school, dates to 1881 (Engwall and Zamagni, 1998; Sass, 1982). Many other business schools – Chicago, Dartmouth, Columbia, University of Texas, etc. – trace their origins to the first quarter of the twentieth century. However, business school growth really exploded after World War Two with the proliferation of Master of Business Administration (MBA) programs driven, in part, by the GI Bill's support for the broad expansion of higher education and in part by the needs of a dynamic economy. The schools' growth has continued, even as the US economy has faltered from time to time. Business studies now preoccupy one of every five US college students. Eventually US business education, along with US systems of corporate governance and finance, became major export items.

While concerned with the form and content of business school education, our book is not a further addition to the expanding literature charging business schools with failing to deliver against their original promise (Khurana, 2007). We are preoccupied, rather, with how that promise never meshed well with the US's – and the wider world's – management needs, and instead helped progressively to spin our lives out of balance. Management is a

practice; hence, business studies, like other practitioner disciplines, must stand on intimate acquaintance with the context of the practice it purports to teach. The subtleties of the interactions between theorists and experimenters in the natural sciences show that this intimacy does not necessarily mean that business theorists have to engage in business themselves. But they do need to remain attached to the world of business practice and resist the temptation – one that goes back to the ancient interplay of Platonic and Aristotelian approaches to the world – to invent an abstract world that they find more attractive, for reasons that are largely methodological, than the real one. Those who take up intellectual residence in such an invented abstract world precipitate multiple failures: in the business community, among students looking to enter that community, and by encouraging the moral failure of the community itself.

Our intent is to show how the methodologies introduced into business school education combined with managerialism to foster today's world out of balance. To expose this, our book explores two themes. First, how the balance was disturbed by the obsessive preoccupation with numbers that followed the development of the “new paradigm” in business school curricula after World War Two (Locke, 1989). For people in that immediate postwar generation, numbers implied objectivity and accuracy. They were led to think, erroneously, that decisions based on numbers would be independent of the observer or of mere opinion. They also thought management could decide rationally and aspire to omniscience. But for most practicing managers not all the variables that affect their decisions and outcomes can be modeled mathematically. At the point where outcomes cannot be modeled, where numbers no longer suffice and the managers' rationality is evidently bounded, there human agency or judgment enters in to counterbalance the messages the numbers convey.

The Enlightenment philosopher John Locke called the point where people could not rely on a numbers-driven logical conclusion the moment of subjective judgment; others speak of the use of imagination, meaning that point in the analysis and evaluation where the agent's mind, for lack of a determining relationship between cause and effect, intervenes to supply her/his "subjective" solution. Those obsessed with the primacy of numbers find it difficult to accept the proposition that nonquantifiable variables have to be considered. How many times have we heard repeated Lord Kelvin's quip "if you cannot measure it, you cannot improve it"? René Descartes so disliked nonquantifiable variables that he excluded them as illusionary, as did the postwar business school curriculum reformers in the Ford Foundation program (Khurana, 2007, 233-88). Winston S. Churchill, who fully appreciated the importance numbers have for policy makers, differed; he grasped the deep significance of "soft" variables when managing events in the sphere of human action and interaction. Which is why he, as one of the twentieth century's great rhetoricians, devoted around forty minutes of thought, preparation and rehearsal to every minute of his speeches, and why those speeches were so memorable and world shaping. Men of great historical importance from Pericles to Abraham Lincoln to Charles de Gaulle have always appreciated the power of rhetoric to reach beyond "numbers alone" to bring forth and shape the agency of others. Rhetoric, as a practice of analyzing and inducing social action, goes back at least to Isocrates (436-338 BC) who felt that the distinctive aspect of Man is that he can "both persuade and be persuaded." Since in this book we argue that much of management is about numbers failing, we also argue it is more about persuasion and the shaping of others' agency than business education currently admits - and is correspondingly less about the numbers that are so clearly considered determining by so many influential business educators.

The point is that human agency counterbalances the seeming objectivity of numbers or rather comes into play where numbers leave off or fail. Quantification is generally important but seldom all-important, and sometimes it is not important at all. This also means that agents/managers must understand the limits to their agency, know where and when the numbers are determining, as well as when they are not. The French general staff, for instance, made this miscalculation in 1914. They imbibed Colonel Grandmaison's doctrine that the general who loses the battle is "the one whose will cracks first." Engaging the German army's superior firepower made this doctrine disastrous; their guns mowed French troops down – even while generals who refused to consider stopping the carnage for fear of being seen to "crack" urged them on. The irony is that the real value of training in the use of numbers springs not from denying the relevance of management's judgment, but from those managers who, being responsible anyway, fully appreciate the limitations of numbers. Those who do not know them and use numbers blindly make huge mistakes – as we might have learned from linking wartime strategic decisions to "body counts."

Unlike mathematical modeling, which rests on ostensibly universal principles, the agency analytical synthesis is always specific to a unique situation, never generalized or stored as manager-independent heuristics or Standard Operating Procedures. Agency is also profoundly morally burdened since it is not just an idea. It leads on to actions that affect others and the world. Many business entrepreneurs understood this in the past because a different culture prevailed. Business literature of the nineteenth century, even after the advent of the "robber barons," often refers to the businessman's "social duty" and the need to seek a moral balance between social and private benefit. But today, along with fetishizing quantification in the business school curricula, students are trained to forget "soft" issues in



the most self-destructive ideological switch that could be imagined: a switch to an ideology that has little to do with politics or religion but bears directly on how we think about management. Real business, as opposed to the models imagined and propagated by, say, University of Chicago economists, is about everything except what can be measured. Ultimately the value of measuring and modeling lies in how it helps the entrepreneurial manager focus her/his imagination on what remains: the area of uncertainty or “knowledge absence” into which entrepreneurial agency must be projected.

All significant, efficacious educational reform ultimately has significant effects on national leadership. All great reformers want their nation’s elite schools to awaken a sense of national responsibility in their students. Napoleon radically reformed the *École Polytechnique* to enable it to train a knowledgeable and responsible elite to run his army and empire. In 1946, Charles de Gaulle set up the *École Nationale d’Administration* (ENA) because he believed the leadership cadres had signally failed the nation under the Third Republic. West Point, founded in 1802 and modeled on France’s *École Polytechnique*, cultivated a culture of military and civil service; it was also the incubator of the engineer-managers who carried through many of the great civil engineering projects that served the US national interest so well during the nineteenth century.

Many people understood, moreover, that a culture of service could not be cultivated successfully in a West Point, or an *École Polytechnique*, or a business school merely through lectures on ethics and morality or by mindless repetition of slogans like “honor, service, and country.” Knowledge about leadership is wrought at the operational business coalface or the platoon level in the military. Officer training begins with the development of interaction and trust between officer aspirants and fellow soldiers. The goal is to develop the realization that even if you do

not like these guys, they are the people without whose complete confidence and unconditional full support you will certainly fail and may die. People learning this in the everyday life of the unit also learn something fundamental about themselves and their limitations. They realize that people who know nothing of their limitations do not know anything useful. The experience of being a member of something beyond the self, a certain result of being together under fire, creates a special relationship with those who shared the experience that has no match in any other sphere of life. Business leadership requires similar self-knowledge, though its circumstances are very different. Tough projects, undertaken against considerable odds and under high pressure, lead people to surprise themselves about who they are, what they can do, and how much they depend on others with complementary attitudes and capabilities.

Fully committed interpersonal association cannot be learned by an isolated student in an elite institution; it is always realized in an operational collaborative context – sociological, political, technological, geographical, historical, and so on. The military theorist Carl von Clausewitz believed military education could and should deliver this kind of knowledge, and it was implemented well in the integrated training regimes of the German officer corps between the world wars (Lewis, 1985). In contrast, the American army's policy of slotting individuals into vacant skill positions as if they were replacement parts had negative effects on unit cohesion and combat effectiveness. In this book the process of workplace association is discussed in depth because of its contribution to good management in German and Japanese manufacturing organizational cultures. In contrast, US managerialism and business school education interrupted the natural processes of association and collaboration under pressure, thereby contributing to the poorer performance of American business after the 1970s.

In earlier years US business school educators engaged the moral dimensions of managing in their technological and social educational programs. But post-World War Two reforms in the structure and content of business schools refocused student attention more narrowly and almost exclusively on the numbers, in fact, effectively banishing both soft variables and ethics from the professors' purview. Just as significant – and there is irony here – was the determination of Hayek and his generation of neoliberal economists to fight fascism by denying the theoretical possibility of fully rational centralized government. By appealing to market forces and individualism instead, these economists set themselves adrift from the very concept of community. In doing so, they pushed the “market ideology” that invaded business schools just at the time when the gap between rich and poor in the US began to increase at an accelerating pace. They brushed aside the idea that government and business leadership had complementary rather than competitive roles to play in a society in which markets function successfully.

This was a moment of profound failure of academic leadership, for the objective market forces to which these neoliberal economists appealed were not of this world. No one leading a school of general medicine will stop students from learning the practice of surgery simply because cutting the human body cannot be reduced to rigorous theory. Practical education calls for a fruitful balance of theoretical instruction and carefully guided practical experience, just as German engineering studies successfully developed and implemented *Technik* – the blending of scientific theory with workshop knowhow that is the traditional German definition of useful engineering. That US business schools failed – in part through greed, in part through the genuine difficulty of it – to develop a satisfactory way to balance abstract theorizing with a practical sense of community service and engagement is a sign of this leadership collapse. The

US business schools have generally ignored the many years of experimentation in practical and professional education – in Germany, the UK, and elsewhere – even as the latter offer good evidence of the benefits of educational balance for the former to study and, perhaps, emulate. We live with the consequences.

At the same time managerialism has led to further leadership failures. As so often in a democracy, people get what they ask for. Business recruiters have been content to let Yale, Harvard, Stanford, and the other business schools select students for them, reducing the business schools' role to one of facilitating the ambitious student's self-selection and caste membership preparation, while diminishing and maybe abandoning their educational role. In particular, business schools have been able to get away with not doing precisely what West Point and the *École Polytechnique* were expected to do – cultivate a culture of professional and public service. Rather, they have become penetrated by business leaders' greed, which trickles down as the students' evident sense of entitlement, limitless hubris, and general disregard for social norms that might stand in the way of their personal success. The business schools' renunciation of their moral and political responsibilities to society as they train those entering the management caste, and that caste's disinclination to have the business schools assume those responsibilities, have contributed directly to sending our lives out of balance in these difficult times.



## INTRODUCTION

# Managerialism and business school education, 1920–1970

Management is an integral part of the post-Enlightenment democratic capitalism that spins around individualism and inter-individual relations, particularly those relations fundamental to economic activity. In the eighteenth-century Enlightenment, people began to see human progress and economic activity as related – perhaps ideally identical if we could ever get the dimensions and metrics right and see the world’s uncertainty as the source of, or rather the source of the *possibility* of, human-induced growth. Growth and innovation can never be “determined” for that implies a closed system. Rather, growth is a consequence of our human ability to pull something from the realm of the unknown into the present.

Some possibilities are not present in Nature but are aspects of “things” we create, which reminds us of Giambattista Vico’s notion that the “social sciences” may not be sciences at all in the sense we mean when we say “natural science” (Vico, 2000). Nature makes the things natural science theorizes. Human beings make the things social sciences theorize. The unknown

from which socio-economic “things” – especially economic growth – are pulled is not one that Nature has created but the locus of human imagination, energy and action. While one can imagine all growth being the result of a specific individual’s activity, a James Watt or a Henry Ford, society as we know it is “man-made,” the consequence of collaboration that produces what we see as growth, the result of harnessing others’ capabilities to managers’ purposes. Collaboration is a hallmark of human activity, so “managing” it is a fundamental human capability without which we would have no society. Management today presupposes the agentic capacity and energy of free people. This has always been at the core of democratic capitalism, the source of its still, at times, astonishing vitality – right up to the present in places like Silicon Valley (Locke and Schöne, 2004, 16–50).

Managerialism differs; it is a phenomenon associated with membership in a specific group of managers that share specific attributes – a caste. It does not reflect the culture of democratic capitalism with its commitment to collaboration; rather the caste desires to stand apart from society, to become less social and more predatory; to see both markets and businesses as opportunities to plunder, whatever the consequences; to take unforgiving advantage of the errors, misfortunes, and circumstances of others, no matter how they arose. Managerialism has done America great harm. No aspect of that harm is more pernicious than the role business schools have played in reinforcing the caste’s sense of itself and the legitimacy of its predatory instincts done in the name of good management.

Managerialism first appeared during the transformation of American organizational culture in the late nineteenth century, partially from changes in workshop routine. Explaining this change, one observer noted that around 1900:

The skill and knowledge of Europeans ... was the equal and sometimes the superior of that of Americans. The difference was in how this technical knowledge and skill was used. The European manufacturer used it to make a product. The American manufacturer used it to make a process for making a product. A high-class machinist in Europe [made] the product his company produced, his American counterpart ... set up a semiautomatic machine for less skilled labor to operate and to make this product, or he ... engaged in making the semiautomatic machine ... to make a product. The literature of the time frequently mentioned that American machines and tools were superior to the European. This, however, reflect(ed) not a difference in abilities as much as a difference in the thinking of European and American management. One appreciated the importance of and understood how to obtain the advantage from machinery, the other did not. (Litterer, 1961, 467)

To seize the advantage a new class of shopfloor managers came into existence between the worker and the owner in enterprise; these shopfloor managers developed a cluster of general factory management skills eventually codified as “scientific management,” which appeared in the US soon after the turn of the twentieth century. Frederick Winslow Taylor, the most prominent person in the movement, described many of the techniques in important papers on *Shop Management* (1903) and *The Principles of Scientific Management* (1911). These techniques included time-and-motion studies that managers conducted to teach workers job efficiency, which meant among other things that managers not workers controlled skill acquisition and deployment. Taylor and other members of the scientific management community also developed a myriad of management accounting techniques (standard costing, marginal costing, budgeting, etc.) that firms implemented in the new costing departments established by managers in the pursuit of efficiency.



A second transformation led to new administrative structures, necessary to run the burgeoning corporations then changing the industrial and business landscape of the USA (Chandler and Redlich, 1961; John, 1997). Chandler and Redlich have observed the administrative problems associated with huge multifunctional firms that had fomented a managerial revolution in their administration by the early 1900s. With thousands of administrators and tens of thousands of employees, these firms threatened to become ungovernable as top managers became more and more distanced from workers and everyday operations. The resultant change separated managers involved in strategic decision-making from managers preoccupied with daily operations. Chandler and Redlich wrote

The centralized coordination, evaluation, and planning for the diverse activities of a large number of sub-units which often carried out several different functions of production, distribution, and transportation within a single, purely private enterprise, was something new in economic history. Such needs brought the managerial enterprise into being. The new enterprise could not run efficiently without formal internal organizations. They required the generation of internal operating, financial and cost data. Only through a flow of internal impersonal statistics could control of these large enterprises be maintained. (Chandler and Redlich, 1961, 5)

In these new multidivisional (or M-form) corporations, the higher- and lower-level staffs, organized on functional bases, utilized standard cost and budgetary methods to run an increasingly complicated enterprise. The American managerial revolution, then, consisted of two interrelated aspects: it created (1) the organizational structure of the modern corporation and (2) the managerial instruments the organization used.

The resultant division of labor between top corporate management and sub-units also changed management goals.

Engineers on the shop floors and in the manufacturing divisions of M-form corporations made artifacts. Top management, in which controllers trained in accounting increasingly replaced the engineers, thought about money, that is, about constantly improving return-on-investment. Money is particularly susceptible to management thinking based on general principles. As John Quiggin remarked,

The belief [is] that organizations have more similarities than differences, and thus the performance of all organizations can be optimized by the application of generic management skills and theory. To a practitioner of managerialism, there is little difference in the skills required to run a college, an advertising agency or an oil rig. (Quiggin, 2003, 1)

The controller (today the Chief Financial Officer) became the board of director's indispensable man. He was generally a vice president in the company, with direct access to the chief executive. His function made him a fount of information for policy decisions of a financial, technical, and/or commercial nature. He also had an instrumental role in policy implementation once decisions were taken. American corporations began to create controllers in large numbers in the 1920s. The position became significant enough by 1929 for controllers to organize their own professional institute. These developments and their consequences soon drew public attention. In 1932 Adolf Berle and Gardiner Means, in *The Modern Corporation and Private Property*, described the role of management as a functional caste in executive circles; Simone Weil about the same time (1933) recognized that the separation of ownership from control had created a new "oppressive" class, as opposed to the older idea, derived from Marx, of the bourgeoisie as an "exploitive" class (Grey, 1996, 597); James Burnham's *The Managerial Revolution* appeared in 1937. By World War Two the management caste

constituted, to use Heinz Hartmann's words, "a fourth production factor ... a strategic variable for the development of the firm" (Hartmann, 1963, 113). It has remained the management mindset in firms ever since.

J. David Edwards summarized the US mystique of managerialism:

1. The primary value is economic efficiency, or the pursuit of maximum output with minimum inputs.
2. Second is faith in the tools and techniques of management science and the ability of managers to use those techniques to resolve problems. In the extreme this faith in managers' specialized skills and knowledge may get carried over from the organizations they run to society as a whole.
3. Third, class consciousness, which serves as a unifying force among managers and which is perpetuated through a common literature and training regimen. This common consciousness places responsibility for organizational well-being squarely on the shoulders of managers and justifies to some degree the reliance on hierarchy and control inherent in bureaucratic structures.
4. Managerialism views the manager as a moral agent working to achieve the greatest good not only for their organizations, but for society as a whole. (Edwards, 1998, 5)

### **Business school education**

While managerialism had taken root in American consciousness by 1940, no parallel change had occurred in management education. People often expect educational innovations to flow from two somewhat incompatible sources – academia and management practice. Between 1880 and 1941, however, neither sanctioned the creation of a science of management

in business schools to accompany the new managerialism. In Great Britain, institutions of higher education ignored engineering and management education during the First Industrial Revolution (1750–1850), and almost ignored it in the Second (1870–1940). Since people in praxis and in academia rejected the idea that professors could teach management, no business schools appeared in the UK until the mid 1960s.

In Germany the story was somewhat different. While practicing managers expressed little faith in management as an academic subject, academics set up institutes of commerce (*Handelshochschulen*), and university faculties of business economics throughout the empire. They developed a science of business economics (*BWL, Betriebswirtschaftslehre*) before World War Two (Locke, 1984; 2008). The professors did not, however, pretend to research and teach management. They distinguished between a *Lehre für Führung*, a preparation for managing composed of various subjects that could be useful to practicing managers (accounting, finance, etc.), and a *Lehre von Führung*, the study of management itself. While the *BWL* professors developed a *Lehre für Führung*, they rejected the idea of management as a generic function suitable for academic study.

Even though they opted to make *BWL* a *Lehre für Führung*, the professors turned their backs on praxis. At first they struggled with the issue of whether business economics was a *Kunstlehre* (vocational subject) or a *Wissenschaft* (science); by the 1930s, however, they had opted for *Wissenschaft*, no doubt primarily in order for *BWL* to be accepted in universities (whose ethos was *Wissenschaft*). Practicing German managers thought that neither *Lehre für* nor *von Führung* in academia could train people for the job. Both sides compromised uneasily. Drawing a distinction between education that made people capable of doing a job (*berufsfähig*) and training that made them ready to

do a job (*berufsfertig*), the professors decided to focus on giving students a schooling of the mind (*Denkschulung*) that enhanced their ability (*Fähigkeit*) to become *berufsfertig*. They left the training to firms and nonacademic institutions (Locke, 2008).

Between 1880 and 1940 the US business schools took up the challenge of management teaching per se as a *Lehre von Führung*, something that could be theorized with the methods of the natural sciences. This move resulted in a rapid growth in business education and in the establishment of business schools during the period. By 1950, 617 US institutions of higher education offered courses in business, mostly at the undergraduate level, with 370,000 students, nearly double the number in engineering, and 72,187 business baccalaureates graduating (Locke, 1996, 28). Although business education could not be equated with management education in all these institutions, the best US business school educators embraced the idea that they were educating a management caste or profession (Khurana, 2007).

From a curriculum perspective this claim was a fiction. American business schools did not promote progressive curricula innovation during their initial half-century. In fact the US business school syllabus of the mid twentieth century was not materially different from that of commerce schools in 1850 or even earlier, which suggests that business school growth occurred for nonacademic reasons. Various explanations have been offered. As the colleges switched strategies from their early-nineteenth-century focus on ecclesiastical matters to more secular ones, they embraced business studies, arguing loudly that it would establish management as a science. But the reasons for doing this were more likely to have been (a) to engage and serve the local business community, and thereby attract students and donations, and (b) to steal away the significant paying business education that was already being done by the many nationwide nonacademic schools of commerce.

For a long time nobody had much of an idea about what business schools should research or teach – neither the businessmen who gave money and lent their names to the new establishments, nor the professors appointed to teach in them. The subject lacked academic antecedents, so business schools up to the mid twentieth century taught traditional university subjects (geography, history, foreign languages, chemistry, physics, economics, etc.), that is, general knowledge that had little in particular to do with management, plus a cluster of commercial techniques taken from business practice – book-keeping, merchandizing, sales, and business correspondence. This was the case even at the more established business schools. At Wharton, Steven Sass noted,

Pioneer business professors ... found most of their curricular material in the business world, not in the universities. Despite their energy and enthusiasm, their “scholarship” essentially had been an extended form of business journalism. The heavy reliance on business for teaching material offended academic sensibilities. (Sass, 1982, 268)

Sass observed of the neoclassical-oriented economists at Wharton: “As a group the schools’ economists [of the interwar period] had been cool to the practical descriptive thrust of Wharton’s business programs and had had little interest in the managerial arts and sciences that were taught in those parts of the school” (Sass, 1982, 268).

In 1908, at Harvard’s newly founded Graduate School of Business Administration, Dean Edwin Gay introduced the case method he was familiar with from Germany – with support from the Harvard Law School, where Langdell had adopted it some years before (Kimball, 2009). Business students read and discussed *résumés* of hundreds of actual cases designed to give them a taste for real business problems. The method was

historical and critical rather than scientific. Indeed, the scientific method cannot be taught particularly well with cases, nor are cases very useful to researchers. The Harvard Business School (HBS), the most prestigious and influential of the US schools, did not foster the teaching of management as a positivist science.

The disequilibrium between the state of management-caste consciousness and the state of business school curricula was an incongruity. Nor would it right itself through some feedback system that looped from the early business schools into executive suites and back to the curriculum. The changes that brought about the creation of management science in business schools after World War Two came from outside. They stemmed from the cataclysmic historical events – the Great Depression, World War Two, and the Cold War – that overtook everyone. Government, stepping to the fore at these times, was more the agent of change than either business schools or businessmen. The government also helped bring many immigrants to the US, and their impact was huge. An example is the Manhattan Project, which brought people from scientific communities all over Europe to work on the US government's atomic bomb.

These events similarly disrupted the lives of the generation involved in management knowledge-creation and its transfer into business schools. An equivalent gathering of talent led to the development of a new science of management. The Cowles Commission, founded in 1932 by the Chicago businessman Alfred Cowles, which effected important contributions to mathematical economics, consisted to a large extent of immigrants. Jacob Marshak and Tjalling Koopmans, who directed the commission, were respectively Russian and Dutch. Abraham Wald, the gifted statistician who had a strong influence on the commission's work, was Rumanian by birth and partly by education (he was also educated in Vienna). Other contributors to

management science also came from abroad. Trygve Maavelmo, who studied in Oslo and worked in New York during World War Two, was Norwegian. Both Oskar Morgenstern and John von Neumann, who devised game theory (published in 1944 by Princeton University Press), were Austrians. Von Neumann also contributed to the development of computers and worked with the Cowles Commission on mathematical statistics.

But the most important change agent was war itself. The team of British scientists and engineers that worked on the ‘operational use of radar information’ at the British Air Ministry (at Bawdsey Manor) could hardly have guessed that their efforts to solve their operational problems would have such consequences. Their success spawned operation research groups throughout the military on both sides of the Atlantic. C. H. Waddington, who was involved in anti-submarine operations along with two Nobel Prize winners and four other fellows of the Royal Society, wrote: “Never before has science been used by responsible executive authorities for such a thorough and such an unrestricted analysis of practical affairs as it was by the Royal Air Force from 1941 onward” (cited in Locke, 1989, 25).

The reference is to science, not to scientists, for it was not just a question of intelligent men and women helping out, but rather of their deploying science’s methods to solve unprecedented strategic planning, logistics, and operational problems that could not be dealt with by the methods governments and military bureaucrats had hitherto employed. Operational Research (OR) projects drew on statistical and mathematically informed techniques, such as queuing and transportation theories, that were particularly suited to maximizing efficiency in large-scale military operations (Fortun and Schweben, 1993). OR’s success impressed a whole generation. It impressed Winston Churchill, in particular, who noted the “clear cut, logical, mass production style of thought” that he encountered in Americans.



After a brief respite the use of science in government-affiliated agencies expanded considerably during the Cold War (Waring, 1995; Hughes, 2002; Little, 2002). In 1946, the US Army Air Corps funded a new think tank, the Rand Corporation, to help solve operations problems. In 1947, George B. Dantzig and his Rand associates developed the simplex linear programming algorithms for decision making. The procedure utilized modern mathematics (vector algebra, matrix theory, symbolic logic) and statistical techniques in an effort to take the guesswork out of decision making. The US Air Force, for instance, used it logistically in the Berlin Airlift and during the Korean War.

### **British and American OR and educational traditions**

The question of interest here is how this OR mathematical-modeling toolkit affected business school education. Although British Operational Research during World War Two set the example for the Americans, and British OR teams were especially active in the new nationalized industries postwar, English educational tradition hobbled the development of OR studies in higher education because of a missing utilitarianism. The first university-based course, inspired by Sir Charles Goodeve of the Operational Research Club and Professor Egon Pearson, the eminent statistician, came only in 1949, and then in typical English academic fashion as a one-time, three-month evening course, not as a regular university program. A British university did not offer another short-term OR course for five years. Nor could business schools have perked up an interest in OR studies in Britain for the simple reason that, until the late 1960s, Britain had no business schools with MBA and PhD research programs, where such a transformation could have occurred.

On the other hand, US academic institutions, always interested in utilitarian education, got involved. The Case Institute

of Technology in Cleveland started the first operations research (OR) unit at the urging of industry (with financial support from the Chesapeake and Ohio Railroad Co.) and the US Air Force (which funded research on airplane design). The institute organized a national conference in November 1951 on OR in business and industry attended by 150 people from all over the country (Page, 1952). Several other leading American universities established OR programs (Carnegie, University of California, Los Angeles (UCLA), Ohio State, Chicago, Johns Hopkins, Cornell, University of Pennsylvania, etc.). Among these, Ohio State and Case engaged actively in industrial consultancy from the mid 1950s on. These universities also worked with private consulting firms, some of which were large. Booz, Allen, and Hamilton, for instance, had fifty-two offices, which counseled clients on OR. Arthur D. Little got into OR early on. Generally, if private industry and consultants evinced any interest in OR, the Department of Defense readily provided funds to push the new techniques (Bonder, 2002).

Not surprisingly, since mathematics and scientific method prevailed in them, departments of industrial administration, especially in engineering institutions, pioneered the work. The OR teams at Case and the Massachusetts Institute of Technology (MIT) were good examples. Another was the Graduate School of Industrial Administration (GSIA) established at the Carnegie Institute of Technology in 1949. GSIA promoted the new paradigm and “had an impact out of all proportion to its seniority” (Locke 1989, 160). It required entering students to demonstrate a mathematical prerequisite in calculus and it employed “the analytic, normative, mathematical, and scientific mode of instruction” (Jeuck, 1973, 287). Researchers in these places, thinking the methods could and should be applied in marketing, finance, and other business disciplines, expanded beyond industrial administration. The new name given at MIT to the

Sloan School of Industrial Administration (The Sloan School of Business Administration) indicates the broadening interest. Thus mathematicians, engineers, and natural scientists, though based in technological venues, were the first to apply this new scientific method to management problems. The mathematically challenged denizens of business school faculties, generally acknowledged throughout the 1950s to be intellectually mediocre, could not have done this work.

Nor, despite their denigration of business schools, could the economists and their students in universities have pulled it off. Decades after Léon Walras turned neoclassical economics into a “mathematical science,” Erich Schneider, a great admirer of his achievement, had to admit that it had not been of much help to practical problem-solving by economic policy makers (Vogt, 1979). In 1944 John von Neumann and Oskar Morgenstern had already drawn the same conclusion. In the foreword to *Theory of Games and Economic Behavior*, they wrote: “The concepts of economics are fuzzy but even in those parts of economics where the descriptive problem has been handled more satisfactorily, mathematical tools have seldom been used appropriately. Mathematical economics has not achieved very much” (von Neumann and Morgenstern, 1944, Introduction).

Game theory drew a straight line from modern mathematics (because von Neumann used algebra, matrix theory, and probability theory in his calculations) to George Dantzig’s linear programming algorithms of 1947. Postwar military planners and the economists who worked with them at Rand believed the new toolkit would transform neoclassical economics into a prescriptive science. At Rand in 1948, the economist Kenneth Arrow used the toolkit in his work on Rational Choice Theory. His book *Social Choice and Individual Value* (1951) was the “first real classic” on what “is now taken as a given in economics and has spread out into many neighboring disciplines” (Bellah, 2000, 7).

The neoclassical economists Joseph Dorfman, Paul Samuelson, and Robert Solow applied linear programming to their subject as well (in *Linear Programming and Economic Analysis* [1958]). In 1954, Kenneth Arrow and Gerard Debreu announced that they had achieved a mathematical solution of general equilibrium, “the theoretical core of neo-classical economics,” which Edward Fullbrook states “has become the central showpiece of academic economics ever since” (Fullbrook, 2003, 5; Arrow and Debreu, 1954).

These were heady days for Pentagon innovators. A new management technique, PPBS (Planning, Programming, and Budgeting System), was installed first in the Department of Defense by Rand economists after Robert McNamara left the Ford Motor Company to head the DOD in 1961 (Rosenzweig, 2010). After 1965 PPBS was extended to other government agencies (Locke, 1989, 33). In their enthusiasm to enhance the prescriptive value of economics, these economists set about upgrading their students’ methodological skills. The Rand Corporation funded a generous fellowship program for graduate students in economics at the Universities of California, Harvard, Stanford, Yale, Chicago, Columbia, and Princeton, and provided postdoctoral grants to young faculty anxious to use the new methodology in their research (Fullbrook, 2006). Russell Ackoff left Case Western Institute of Technology to create the OR program at Wharton. Economists took their upgraded mathematical-scientific knowhow into the business schools, and the transformation of US business school education began.

Most commentators trace the radical content change in business school curricula to the impact of two reports on business education published in 1959 and the resulting efforts the Ford Foundation made to promote management education reform (Gordon and Howell, 1959; Pierson and Finberg, 1959; Khurana,

2007), even as it was clear this built on a trend begun many years before (Bottom, 2009). An explosive growth of graduate business schools and MBAs began. In 1960, some 4,814 of these qualifications were granted, 23,400 in 1970, 49,000 in 1980, 70,000 in 1990, with more than 200,000 plus per year at the century's end. The Ford Foundation programs provided funds for upgrading graduate business school faculties, in order to get rid of "unimaginative, non-theoretical teaching from descriptive practice-oriented texts to classes of second-rate vocationally-minded students" (Locke, 1989, 161).

These were also glory days for neoclassical economists. The Rand Corporation's scholarships and postdoctoral funding helped raise mathematical competence and added to the prestige of the discipline within the social sciences. That prestige grew even more when the Bank of Sweden created a Nobel Prize in economics in 1969. Most of the resulting Nobels were handed out to the creators of this new scientific-mathematical paradigm (Arrow, Samuelson, Solow, etc.). They, their students, and disciples took over teaching and research in most American university economics departments and in the best business schools, from which their influence spread overseas through the Department of Defense into NATO, through government programs such as the Marshall Plan, and through private agencies like the Ford Foundation.

In 2003 Fullbrook wrote of these neoclassical economists:

They control the three most prestigious economics journals in which papers by their staff and PhDs predominate. Of the over 800 economists employed by the World Bank, a majority have been trained at one of the Big Eight (California-Berkeley, Harvard, Stanford, Yale, Chicago, Columbia, Princeton, and MIT). The International Monetary Fund is similarly provided, as are the other highly ranked economics departments in the US and in some cases in other countries. The 2003 edition of

Penguin's *Dictionary of Economics* ... has entries for 29 living economists. Of these, 26 ... are from the US or have had all of the most important part of their careers there. Of the 26, 100 percent have either taught at or received their PhD from one of the Big Eight. (Fullbrook 2003, 6)

What a remarkable climb to academic heights! What triumph! Yet one must be careful to clarify what this triumph means. Democratic capitalism in America turns on individualism. This is a heroic vision, part of US folklore – sustained with Horatio Alger-like stories about John D. Rockefeller, Andrew Carnegie, J. P. Morgan, and Bill Gates. When these hero-managers make “strategic” decisions in an uncertain world, they rely on intuition as much as on knowledge, for, as Maurice Merleau-Ponty says,

Every historical undertaking has something of an adventure about it, as it is never guaranteed by any *absolutely* rational structure of things. It always involves a utilization of chance; one must always be cunning with things (and with people), since we must bring forth an order not inherent in them. (quoted in Sartre, 1948, 163–64)

From this perspective the Harvard case method makes more pedagogical sense than OR and the science of management introduced in the new paradigm; this is because the former lets students vicariously experience the difficulties of strategic decision-making in a world of bounded rationality. Professors in top business schools, who have spent so much effort since World War Two equipping themselves with the research tools of the new paradigm, see no science in historical cases and frown on them. In committing themselves to omniscient rationality, however, the neoclassical economists and other hard management science advocates produce a science divorced from reality.

After World War Two the new paradigm thrived both in the business school curricula and in the rising managerialism to be

found among management practitioners, especially in the larger corporations. To the first postwar generation managerialism was not mean-spirited. It promised to provide stockholders with greater profits but also to keep the average man free from want through “managed” productivity. The rhetoric was the American response to the phony promises of Communism.

But it was rhetoric, nonetheless; managerialism in this regard was more akin to militarism than to entrepreneurship or management proper. Over sixty years ago Alfred Vagts juxtaposed the terms “militarism” and “the military way.” The military way meant setting a military goal and developing the most efficient organizational means to see to its accomplishment. It required unpredictable and at times unfathomable genius. Management, as applied to commercial and industrial organization, meant the same. “Militarism,” on the other hand, had a much different connotation. As Vagts wrote:

[It] presents a vast array of customs, interests, prestige, actions and thought associated with armies and wars and yet transcending true military purposes. Indeed, militarism is so constituted that it may hamper and defeat the purposes of the military way. Its influence is unlimited in scope. It may permeate all society and become dominant over all industry and arts ... Militarism displays the qualities of caste and cult, authority, and belief. (Vagts, 1937, 11)

Managerialism as opposed to management means “a vast array of customs, interests, prestige, actions, and thought” associated with but nonetheless transcending the need for the efficient running of commercial and industrial organizations. In this book we argue its influence and power in enterprises is now almost unlimited in scope, having expanded into almost every kind of organization in the USA, profit and nonprofit, commercial and educational, governmental and military. As it grew up

in America in the second half of the twentieth century, managerialism came to exhibit the features of a caste – cult, authority, and belief – that Vagts noted. American managerialism – given the mystique it generates in elite business schools and the ethos being taught there, so evident in the media’s championing of the wisdom, capability, and invincibility of our CEOs, and in the laws and customs that empower them – developed into a system that has, most paradoxically, often denied organizations the very means needed to formulate and effectively reach their goals.

Few, other than leftist ideologues, would have expressed such dark thoughts before 1970. Now, after the economic crisis of 2008, these views are commonplace. How can this be? The postwar generation that developed managerialism and business school education presided over an unprecedented US-led expansion of wealth and power. Its participants attributed that growth to their own knowledge and skills, eschewing any sense of propriety or respect for the others who also made contributions. Now some chickens are coming home to roost – but whose are they? How are we to understand that American plenty began to disappear after 1980, evident in the growing gap between rich and poor, and in the US’s diminished global power? Do America’s managers carry responsibility for this too?

Our argument is that they do – in part – and just how much is our central topic. There can be no proof, of course, for there is no real nonmanagerialist model against which we might compare what happened. The way of historians is to gather various items of evidence and deploy them as rhetorical support for conclusions that seek to be no more than reasonable and illuminating of our current situation. To justify our conclusions, we begin by arguing that the vision and optimism that propelled managerialism were not systemically based but historical, arising in a window of time and space. That is, rather than being based in a



powerful science of managing or even on a securer grasp of an enterprise's problems and challenges, managerialism was little more than a fad, a tale we told ourselves, but one that became leveraged into America's culture. From that position managerialism had a huge impact on enterprises in the US and elsewhere, and on nations themselves and how they began to be managed. We argue business schools contributed significantly to this impact. As corporate managers in the 1980s began to place their own interests above those of the nation or of the other stakeholders, they found such questionable personal inclinations supported by the culture-wide adoption of the language of free markets and antiwelfarism.

In Chapter 1 we look at how this cultural shift accelerated, even as one aspect of Edwards's definition of managerialism waned quite early on: "faith in the tools and technique of management science and the ability of managers to use those techniques to resolve problems." We help explain what went wrong with what Edwards called "the primary value of managerialism – its economic efficiency." The gathering evidence of managerialism's ineffectiveness as an approach to everyday practice, as manifest in the formal modeling of managerial decisions and organizational processes, was no impediment to its spread, as "Groupthink took hold" (Janis, 1972).

In Chapter 2 we explore how managerialism failed to develop an ethical core or commitment, what Edwards called the second component of managerialism, presenting "managers as ... moral agents working to achieve the greatest good not only for their organization, but for society as a whole." In Chapter 3, moving from the macro to the micro level, we discuss the failure of managerialism to meet the organizational challenges of the US automobile industry. Chapter 4 describes how the management caste's conscious preoccupation with money (and the ideology of greed) disrupted the financial system and brought it

to the edge of ruin in the early twenty-first century. Clearly the trust initially placed in managerialism, and in the transformative power of business school education, too frequently resulted in inefficiency and impotence.

The Conclusion focuses on prescription – on guidelines for restoring the life presently out of balance. Given the extent of the current crisis of governance, many commentators presume society must change. There is a clear divide between improvement and correction, and radical change. Those looking for remedies within managerialism and the business school establishment forget Albert Einstein’s admonition that one cannot solve problems at the same level of thinking that created them.