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 fetishing 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.