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The Invention of the Business School

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review of: Rakesh Khurana (2007) *From Higher Aims to Hired Hands: The Social Transformation of American Business Schools and the Unfulfilled Promise of Management as a Profession*. Princeton and Oxford: Princeton University Press. (HB, pp.531, £19.95, ISBN 978 0 691 12020 1)

The story of business education in the United States is also a story about a new occupational group that emerged in the late nineteenth century and rose to prominence during the twentieth century: full-time salaried managers. This relation – between management as an academic discipline and management as a professional class – provides *From Higher Aims to Hired Hands* with its main focus. Although this is a work of mainstream business history, written as it is by an associate professor at Harvard Business School, the book marks an important contribution to the sociology of professions beyond the field of management studies (indeed, it won the 2008 American Sociological Association's Max Weber Award for Best Book). Khurana, with an engaging scholarly style and a deft handling of historical sources, takes us from the faltering first steps of business education right up to its contemporary full spectrum dominance. While it would have been interesting to see how business education developed in countries outside the United States, the book sheds a great deal of light on the individuals, institutions, and wider social forces that have shaped the American business school over its 130-year history. To this extent, *From Higher Aims to Hired Hands* is essential reading for anyone who wishes to find out how something as functional and applied as 'management' came to be taught and researched at university-level in the first place.

Khurana argues that the emergence of the business school in the late nineteenth century was inextricable from management's quest for social legitimacy. The power that management now commands over organizations is by no means a natural or inevitable outcome of its institutional origins, as some have suggested (the work of Alfred Chandler is one obvious point of reference in this regard). As the early chapters of the book make clear, it was necessary for managers to assert their right to control large-scale corporations against the claims of other competing groups, such as shareholders and shop-floor workers. In addition, 'big business' was facing widespread public mistrust at the time following a spate of high-profile corporate scandals. The solution, for the managerial elite, was clear: "If managers could successfully present themselves as agents of the rationalizing process that was required for corporations to achieve societal legitimacy, managers would, in turn, greatly advance their own quest for legitimacy" (Khurana, 2007: 39). Towards this end, management sought to enlist the resources, both practical and ideological, offered by science, the professions, and the university – three elements that would soon come to coalesce in the form of the business school.

The strategy of the 'institutional entrepreneurs' who founded the early business schools was, on the surface, very simple. By presenting management as an academic discipline, it was envisioned that business schools would confer on managers a more professional status, on a par with that of lawyers, and guarantee their work the appearance of scientific objectivity. Moreover, business schools would serve as a laboratory for improving industrial efficiency as well as a training ground for future business leaders. This process began with the founding of the Wharton School at the University of Pennsylvania in 1881, followed by the College of Commerce and Politics at the University of Chicago and the College of Commerce at the University of California at Berkley, both in 1898. Twenty-five more university-based business schools were established in the first thirteen years of the twentieth century, including Harvard Business School in 1908. Although private colleges for accountants and clerical workers had existed in the US for over half a century, the emerging business schools greatly differed in terms of their scope and ambition. The new institutions did not simply aim to equip their students with a set of technical skills but, in line with the quest for social legitimacy, also hoped to instil in them a sense of duty-bound professionalism – the 'higher aims' of the book's title. As much as we are tempted to scoff at such lofty pretensions from our present perspective, Khurana reminds us that the American Association of Collegiate Schools of Business (AACSB) was founded in 1916 precisely "to transform business schools into genuine professional schools, and management into a genuine profession" (Khurana, 2007: 145). This meant, in practice, that business schools were intended to help management establish its "[e]xpertise, autonomy, and an ethos of service to society" (*ibid*.: 101) on a firm institutional basis, in much the same way as medicine and law had previously gained full professional recognition.

Despite these ideals, the early business schools were beset by numerous operational problems due to their rapid expansion and haphazard development. Some of these problems are still familiar to many of us today who find ourselves working in business schools or management departments: overcrowded classrooms, muddled curricula, poor standards of research, and low-quality teaching from over-stretched and under-trained staff. On top of these systemic difficulties, there was also the question of reconciling the higher aims of the early business schools with the somewhat baser aspirations of their students, namely, to make lots of money by becoming an executive in a large organization. By the end of the twentieth century, the latter set of values would eventually come to displace the former, thus signalling the triumph of market logic at the expense of management's professionalization project.

In the years immediately following the end of the Second World War, the business school entered a period of radical transformation that would serve to inaugurate a new era of technocratic managerialism. What was required, Khurana tells us, was no longer an educational system for "instilling in future managers a strong sense of their responsibilities as businesspeople", as had apparently been the case since the founding of the Wharton School; now, the business school needed "a more mechanized, capital-intensive process for training large numbers of managers" (*ibid*.: 233). The main catalyst for this change came from federal government, with increased state funding in higher education, as well as large philanthropic organizations like the Ford Foundation and the Carnegie Corporation. Such organizations made a deep and lasting impact on business education in the second half of the twentieth century by pumping millions of dollars of investment into business schools. The figures themselves are remarkable. Between 1953 and 1964, for example, the Ford Foundation gave a total of $5.2 million in grants to Harvard Business School alone, which had been designated by the organization as one of several 'centres of excellence' for business education. Needless to say, such vast sums of money could not fail to influence business school policy in terms of research and faculty. While the traditional case study method continued to be used as a pedagogical tool, it was now supplemented by quantitative approaches drawn from a variety of fields, including economics, statistics, and mathematics. Federal government and philanthropic organizations thus contributed to the shift in emphasis in business schools away from narrow vocational training and towards a more standardized and analytical 'management science'.

The most fascinating chapters in the book are saved for last. Having risen in mainstream respectability during much of the twentieth century, the managerial elite were now exerting considerable power and influence over the direction of university-based business schools as well as large-scale corporations. Management, as an occupational group and an aspiring profession in the 1950s and 1960s, was enjoying the fruits of its institutional success. Black clouds, however, were rapidly forming on the horizon: "no sooner had managerialism been enshrined as the justification for both managerial authority and the existence of university business education than it began to be swept away by new forces that would result in the abandonment of managerialism – along with any meaningful concept of professionalism – altogether" (*ibid*.: 291). This critique of managerialism, Khurana explains, had its origins in the economic crisis of the 1970s and was further exacerbated by the logic of investor capitalism in the 1980s. On a basic level, managers were charged with neglecting the interests of investors who owned company stock: instead of maximizing the value of assets for shareholders, managers were said to be more interested in increasing their own salaries and accruing large bonuses. In a curious twist, management was now seen – at least by those adhering to the ideology of shareholder primacy – as an agent of *mis*management. As a result, corporations rushed to 'downsize' and managerial positions in organizations were significantly reduced. Khurana goes so far as to call this shift a 'Copernican revolution' in the way corporations were run:

> Private and public pension funds, mutual funds, and other investors and financial intermediaries…continued to chip away at corporate and managerial autonomy. These large shareholders began to actively press for more control over decisions about mergers and acquisitions, cost containment, executive compensation, and even who should occupy the CEO position. The twenty-year restructuring that was largely completed by the early 1990s marked the overthrow of managerialism as both the defining logic of American capitalism and the arbiter of its actual practices. (*ibid*.: 304)

The demise of managerialism was the first time in nearly a century that owners and shareholders had successfully asserted their right to control large-scale corporations. Ironically enough, the business school – the very institution that management had once hoped to provide the basis for its quest for social legitimacy – played a significant part in management's declining fortunes. Having attracted trained economists, mathematicians, and statisticians to its ranks, the business school was now producing financial models and theories that served to undermine some of the basic arguments in support of managerial authority. Agency theory, for example, emphasized the need to align the interests of managers with those of shareholders. This was to be achieved in part by putting into place a set of internal financial controls that would monitor and regulate managerial performance, thus eroding some of the organizational autonomy to which managers had become accustomed.

The development of anti-managerialist thought within the business school was soon reflected in the types of jobs sought by its graduates. Khurana tells us that "between 1965 and 1985, Harvard Business School – which had always defined its core mission as educating the nation's general managers – saw the number of its students going into positions in fields such as financial services and consulting rather than pursuing careers as corporate managers rise from 23 percent to 52 percent" (Khurana, 2007: 328-9). These same graduates, Khurana adds, would in all likelihood go on to spearhead the campaign of corporate restructuring in the 1980s and 1990s, which saw the methodical decimation of middle management in large-scale corporations. The higher aims of business schools, it seemed, had finally come to an end; managers were no longer viewed as "fiduciaries or custodians of the corporation and its values", but instead "hired hands…who, undertaking no permanent commitment to any collective interests or norms, represented the antithesis of the professional" (*ibid*.: 325).

The tone, throughout the final chapters of the book, is intriguingly plaintive: we are left with the distinct impression that Khurana mourns the passing of management's professional aspirations. This suspicion is confirmed in the book's epilogue. Khurana argues here that, "with the abandonment of the professionalization project and the idea that managers… should exercise ultimate control over the corporation, university business education lost the grand narrative that had sustained it from its beginnings" (*ibid*.: 368). This grand narrative, for Khurana, provided the business school with a wider social mission in addition to its instrumental objectives; the loss of this narrative, therefore, has resulted in an ethical vacuum at the heart of the business school. Khurana proposes to fill this vacuum by reinventing management as a 'calling' (in the Weberian sense of the word) in order to cultivate the values of custodianship, duty, and responsibility in business education. While this liberal-reformist agenda for business education may well strike some of us as bland and insipid, there is a case to be made that Khurana's plea has already been overtaken by recent events: following the aftershocks of the sub-prime mortgage crisis, and the subsequent injection of over $700 billion into the US banking system by federal government, it would certainly appear that the days of freewheeling investor capitalism are, in practice if not quite yet in theory, numbered. Perhaps, then, it is far more likely that the internal contradictions within the economic system itself, rather than the ethical imperatives imposed on MBA students by well-meaning academics, will come to play the principal role in shaping the business school of the future.

By describing the relation between business education and management's quest for social legitimacy, *From Higher Aims to Hired Hands* provides an invaluable resource for those of us attempting to understand how the university continues to be shaped and transformed by a confluence of economic forces and political interests. For this reason, Khurana's book deserves to be widely read within academia, in the business school and beyond.

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