

Leveraging the Financial Crisis to Fulfill the Promise of Progressive Management

WITOLD J. HENISZ
University of Pennsylvania

The financial crisis has the potential to unite two long-simmering threats to the legitimacy of business school research and pedagogy into a single conflagration. Business schools have come under increasing attack for their espousal of a strong form neoliberal belief system rooted in the discipline of economics and a lack of attention to practical and, in particular, heterogeneous national institutional contexts. A key insight emerging from a growing chorus of retrospective analyses of the crisis is the need for research and pedagogy to draw upon the breadth of social sciences to inform decision making under uncertainty and more prominently features cross-national variation in institutional context as well as systemic linkages between the behavior of individuals, organizations, academics, regulators and policy makers. While business schools are theoretically ideally positioned to offer such innovation and have done so in the past, the institutional barriers to change are substantial. Drawing on paired historical narratives of institutional changes to business schools and economic policy making, I outline a political strategy that leverages neoliberalism's legitimacy crisis to forge alliances with government and civil society actors who share an interest in fulfilling the promise of progressive management.

As we transition from real-time reactions to the financial crisis and efforts to forestall a repeat of the Great Depression to reflections on the crisis and lessons learned, business schools, like many institutions, are taking stock and charting a way forward. Unfortunately, the largest substantive changes appear to be in the investment strategies of endowments rather than an evaluation of research and pedagogy. If overconfidence in risk-management formulas and practices despite soaring leverage and the ability of the financial sector itself to create value rather than merely mobilize capital in support of value creation are critical elements in the still-emerging narrative of the causal drivers of the crisis, why are the purveyors

of those formulas and practices and of that ideology not doing more in the way of restructuring themselves? Many would like to believe that the crisis can be attributed to bad policies, regulation, practices, models or people. Such policy failures, regulatory gaps, operational weaknesses, formulas, or behaviors are relatively easy to correct. By contrast, structural change to underlying institutions is a much harder fix. I argue for the latter perspective and highlight the difficult path for business schools who wish to join in the process of institutional change rather than risk being swept aside by institutional entrepreneurs after the next major crisis.

This argument builds upon two lines of criticism that have been leveled at business education in recent years. The first focuses on the allegedly instrumental, amoral, and selfish vision of human behavior that lies behind much of modern managerial theory and training (Ghoshal, 2005; Ghoshal & Moran, 1996; Giacalone & Thompson, 2006; Mintzberg, 2004; Mintzberg, Simons, & Basu, 2002; Mitroff, 2004; Pfeffer & Fong, 2004, 2002), particularly in contrast to the broader social science or

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humanity-based training that has been largely squeezed out of the business school curriculum (Bennis & O'Toole, 2005; Duncan, 2004; Starkey & Tempest, 2009; Wright, 2010). These scholars claimed that these assumptions are self-fulfilling and, ultimately, self-destructive. The second line of criticism focuses on the growing gap between the global context faced by managers and the training that they receive (Doh, 2010; Ghemawat, 2009). The financial crisis threatens to bring these long-simmering concerns together into a single conflagration (Friga, Bettis, & Sullivan, 2003). Articles explicitly raising the specter of just such a threat have appeared since the crisis in numerous popular outlets. I locate this criticism in an historical context, drawing parallels to and insights from earlier historical periods in which business schools faced challenges of legitimacy. Both today and in earlier parallel periods, I note the related debates in the policy-making arena between liberalism and regulation. I contrast the progressive reform era in which business schools were first constructed with the subsequent growing dominance of economics in both the 1930–1950 swing to regulation and the 1970–1980 swing to neoliberalism to highlight not only the gaps in our research and pedagogy that the crisis exposes, but also opportunities for reform. I also draw on both the progressive reforms and the subsequent success of those favoring the discipline of economics to acknowledge that such a transformation in business schools faces deep-seated challenges and will require not only substantive internal changes but a sophisticated political implementation strategy.

While a growing body of research on modern business school pedagogy uses quantitative data on current curricular offerings (Navarro, 2008; Rubin & Dierdorff, 2009; Segev, Raveh, & Farjoun, 1999) to arrive at similar substantive suggestions for reform, there are virtues to complementing this analysis with an historical approach. As pointed out by Solow (1985: 329), "if the proper choice of a model depends on the institutional context—and it should—then economic history provides the nice function of widening the range of observation available to the theorist." Carmen Reinhart and Kenneth Rogoff (2008) similarly highlight the benefit of historical analysis to analyzing the determinants and likely evolution of the current crisis.

In a masterful text, Khurana (2007) takes just such an historical approach, highlighting the loss of focus on professional ideals in business schools in favor of professional knowledge. Despite an initial desire to enhance professionalism by placing management on par with medicine or law as a science backed by university training and re-

search of standardized knowledge, institutional pressures from the government, foundations, employers, and academic disciplines—particularly economics—undermined these goals and led business schools to reinforce the short-term instrumental financial mentality they were originally designed to combat. The call for attention to a broader interdisciplinary set of research questions and transferable skills, an emphasis on regaining a lost trust, and seeking to influence policy have clear precedents in which these calls were successful and in which they failed. The historical perspective that follows complements Khurana in placing the historical record of business schools that he recounts into its own historical context. This effort reveals a broader set of drivers of institutional change in business schools and in economic policy making with insight into complementary reforms today.

Pairing the historical narratives allows for the generation of insights into the political process of institutional reform. Whereas business schools' reforms of the 1930s and postwar period were subverted, the long 19th century of liberalism was successfully replaced by a confidence in regulation that itself was replaced by neoliberalism. Each ideological and policy system has emerged from the ashes of its competitor's failures, with its advocates offering salvation. Each system has eventually ceded power amidst its own internal contradictions, with its advocates and institutional support structure discredited and replaced by a new wave of academic scholarship, policies, and institutional supports. Absent attention to this historical pattern of cyclical alternation between liberalism and regulation as well as national variation within it, business schools whose research and pedagogy fueled the recent boom could find themselves the victims of a similar catharsis rather than seize the opportunity of the current crisis to emerge at the vanguard of the next wave of institutional reform.

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Substantively, I argue that in order to achieve this success in the sphere of economic policy making or business school research and pedagogy, our current model of individual behavior (i.e., *Homo economicus*) needs to be mated to instead of contrasted with "animal spirits" generating *Homo therian* (i.e., humans with the head of animals as in Greek or Egyptian mythology).¹ This half-human with the head of an animal is self-interested but also social, driven to fair reciprocal outcomes, subject to cycles of euphoria and despair, and limited in its cognitive capacity to understand the functioning of the world. As compared to the near infinite complexity of *Homo sapiens*, however, *Homo therian*, like *Homo economicus*, can be incorporated within admittedly complex social science research designs and generate clear, practically relevant insight in the classroom. The insight gained into cooperative behavior among heterogeneous workers, managers, executives, and academics as well as the valuation models of consumers, traders, and financiers from the early steps down this path within the disciplines of economics, sociology, and psychology are already substantive. Unfortunately, scholars advancing such a research agenda are less central in business schools that are arguably best placed to push forward these early isolated steps into an interdisciplinary progressive reform agenda.

Strategically, I note that such reform involves substantial transformations of business school research and pedagogy, which threatens numerous established interests. While such reform expands upon the strengths of business schools, it still runs up against important institutional barriers to change. These barriers span faculty lines, courses, and research agendas. Change requires new investments and threatens relationships with existing stakeholders, while being ignored in current measures of business school performance. Reform is possible but only if enlightened internal leadership and pressure and resources from civil society, government, students, and employers successfully frame their calls for reform, tap into deep-seated concerns about neoliberalism in economic policy making more broadly, and form an unlikely alliance to triumph over entrenched faculty, disciplinary paradigms, and short-term financial constraints.

¹ An apt example in this context would be a minotaur, which has the head of a bull (i.e., the symbol of stock market confidence) and the body of a human. Thanks to Michael Munger for this suggestion.

Current Criticisms of Business School Research and Pedagogy in Historical Context

In a series of blistering attacks over the last 10 years (see Table 1), numerous prominent scholars have attacked the evolution of modern business school pedagogy and research for imparting an excessively analytical and disciplinary toolkit as opposed to a managerial mind-set grounded in practice. Mintzberg (Mintzberg, 2004; Mintzberg & Gosling, 2002; Mintzberg, Simons, & Basu, 2002) and Ghoshal (2005) criticize the culture of selfishness that emerges from Jensen and Meckling's (1998) emphasis on the economic model of human behavior over its sociological, psychological, and political counterparts, which they argue has led to an excessive and even self-destructive narrowing of the focus of management research and pedagogy, squeezing out integrative reflection. Hawawani (2005) echoes this point, highlighting the need for a greater emphasis on behavioral and societal rather than quantitative analytical skill sets. Bennis and O'Toole (2005) place the blame not merely on the economics profession but more broadly on the unwarranted application of scientific model to a professional school that should organize itself more like a medical or law school than an economics, sociology, psychology, or political science department. They argue that this self-interested evolution among management scholars has crowded out high impact multidisciplinary and practically relevant inquiry and pedagogy in favor of a vast "wasteland" of technically sophisticated but disciplinary-based and practically useless scholarship—forcing their students to undertake the necessary integration. Pfeffer and Fong (2002) buttress these arguments with a wide array of survey and anecdotal information that MBAs are not benefiting from the classroom experience nor are managers benefiting from management scholarship, ending with support for but skepticism regarding the feasibility of modeling themselves after other professional schools.

A second and heretofore unrelated line of criticism leveled particularly at American schools is their ethnocentrism. Despite the clear relative growth of emerging markets along any potential metric of interest to business schools ranging from new business and employment opportunities to business school applications or large donors, these organizations display little substantive effort and even less success in the adaptation of their research or pedagogy. The rate of increase in management research with cross-border content has increased only from 5.5% to 6.2% from 1995 to 2005, while only a handful of cases emphasizing cross-

border phenomena can be found on the syllabi of required courses, leading 95% of deans and directors surveyed to admit that schools are failing to deliver on their globalization promises (Ghemawat, 2009). Successful globalization requires not merely teaching the same material to foreign students or adapting existing pedagogy to incorporate foreign firms and markets, but rather reappraising how the practical insights of a traditional MBA program and the organizational structure that supports it must be adapted to fit varying institutional contexts (Lovett, 2010). Management research and pedagogy that was better adapted to current cross-national variation in institutions and belief systems would also be better placed to adapt to variation in institutions and belief systems within a country over time.

These criticisms and recommendations are not only well established in the current literature but also have clear historical precedent. Many of the same arguments can be found in the writings of the founders of modern business schools from 1890–1910 as well as from the leaders of those schools in the aftermath of the 1929 financial crisis. Understanding those historical periods both with regard to the debates on business schools and to the role of economics relative to other disciplines more broadly improves our ability to respond to the current threats and opportunities.

Joseph Wharton was one of a number of progressive industrialists at the end of the 19th century who sought to enhance the legitimacy of the profession of management and head off the risk of excess regulation they believed would follow a victory of the populist movement. In a time of mass social dislocation caused by industrialization and urbanization, recurrent economic crises, and notable abuses by large corporations, the successful shift to a large-scale capitalist enterprise system was by no means assured. Fourcade and Khurana (2008: IL) argue that among Wharton's motivations to fund the creation of the Wharton School was "his feeling that American elites needed to embrace new social roles to serve a nation that was undergoing tremendous social change as a result of industrialization." (11) The proposed school was to train future leaders to "manage" competently while also working toward the "welfare of society" (Fourcade & Khurana, 2008). Despite the inevitable tensions between this vision and the functional needs of raising funds and placing graduates in business enterprises, Wharton's vision and those of his peers who helped found comparable schools over the next 2 decades persisted for some time. Wharton's then Columbia's Dean Roswell McCrea

wrote of the challenge and opportunity afforded by these new institutions,

Economics, where ever else it may or may not belong, does belong in the school of business. Both business and economics need to be saved from themselves. Without the presence of economics in some vital form, the work of a school of business is likely to degenerate into detail description of business organization and procedure, with no organizing principle other than the possible one of search for effective competitive devices, and with no clear vision of the social goal of business activity. And economics, divorced from business, is too likely to spend itself either in closet philosophizing by traditional modes, altogether too little affected with a present interest, or in fortifying predilections regarding public policy with broadly garnered data too remote from the intimate, work-a-day world of fresh experience to yield much more than a crop of articles, books, and book reviews. If schools of business realize their opportunities, the economic theory of the future will grow out their researches and will be formulated by their teachers. The joining of socially motivated thinking with a knowledge of concrete, shifting reality, such as can be effected in a school of business, may well escape the puttering of the strict vocationalist on the one hand, and the futility of the closet philosopher on the other. The foundations of wise business policy can be laid in this as in no other way (McCrea, 1925, as cited in Fourcade & Khurana, 2008).

In the boom years of the 1920s, however, the continued inability to leverage either institutional economics or broader interdisciplinary initiatives to generate a standardized set of knowledge for students combined with a surge in demand to lead to the jettisoning of these ideals in favor of an expedient return to narrow-based functional training.

This policy reversion was widely criticized, particularly after the 1929 stock market crash. Khurana (2007) collects quotations from business school leaders of the time whose concerns are eerily similar to those expressed in recent years. Northwestern Dean Ralph E. Heilman asked, "Do we perform a service which is socially desirable?" Wharton Dean Joseph Willits noted that "business schools had been sending their graduates out with a social philosophy concentrated on the goal of 'a million before I'm thirty' thus contributing to soci-

ety's difficulties not to their solution." Harvard Professor Clyde O. Ruggles claimed, "university education in business will be incomplete in a vital respect if our studies of the field of business do not recognize the obligations of these schools to aid in raising the standards of business conduct." Willets invoked the logic of Joseph Wharton writing that "it may not be fair to say that the chances of obtaining a wise and rational policy by government . . . are increased in direct proportion to the extent to which the ethical standards and social mindedness of business men are of a kind that society can approve. In the long run, short-sightedness and unsocial practices by business will lead to political reprisals of a not very discriminating kind by those who have little understanding of business activity."

The momentum for a change in course that placed a stronger emphasis on public interest was, however, according to Khurana (2007), stopped short by the short-term pressures of World War II.

Ironically, the need to train wartime planners and the postwar explosion in demand led business schools to abandon their efforts at enhancing the public orientation of managerial training in favor of an increased emphasis on the hard quantitative skills perceived as necessary to triumph first in World War II and, subsequently, in the Cold War and the surging number of large diversified conglomerates that transformed the global economy in the 1950s and 1960s. In response to the scathing 1959 Ford and Carnegie Foundation-funded reports criticizing business education as having reverted to "trade schools lacking strong scientific foundation," Wharton and its peer schools sought to adopt the scientific paradigm around which modern disciplinary departments were organized. Over time, economics and, in particular, financial economics and its strong-form presumption that short-term market-determined prices are the best indicator of true value, would further isolate broader based social science perspectives that took a more context-specific approach.

Efforts at crafting a more interdisciplinary foundation, such as Carnegie's Graduate School of Industrial Administration, initially flourished alongside more traditional disciplinary structures but were difficult to sustain given the replication of traditional disciplinary boundaries, incentives, and battles. Over time, economics, particularly agency theory and models of asset pricing, became the *lingua franca* of multiple functional areas, while sociology, psychology, ethics, and political science were melded into the field of organizational behavior, whose popularity varies

across schools and time in a manner that only reinforces the hegemony of economics.

I seek to complement this historical narrative, which places blame on the institutional pressures for expediency and places hope in calls to refocus academic attention toward leadership and citizenship with insights from a parallel historical narrative of the history of economic policy making. Juxtaposing these narratives increases the focus on ideational elements and institutional entrepreneurship.

Two Centuries and Two Cycles of the Ascendance and Collapse of Economic Liberalism

Economic Liberalism in the Long 19th Century

Karl Polanyi's classic text, *The Great Transformation* (1944) examined the rise and subsequent collapse of the long 19th century civilization, one of whose pillars he identifies as a self-regulating global market economy. Polanyi likened the transformative impact of the first wave of the global diffusion of economic liberalism to that of the diffusion of Christianity almost two millennia earlier. Polanyi pursued the religious analogy in his subsequent recounting of the "Birth of the Liberal Creed":

Economic liberalism was the organizing principle of society engaged in creating a market system. Born as a mere penchant for non-bureaucratic methods, it evolved into a veritable faith in man's secular salvation through a self-regulating market (Polanyi, 1944: 141).

Polanyi describes the process by which the belief in the self-regulating market grew globally over the 19th century to encompass three central pillars: labor, money, and international trade. During the latter half of the 19th century and first decade of the 20th, in particular, international migration (Chiswick & Hatton, 2003); capital flows (Obstfeld & Taylor, 2003); and trade flows (Findlay & O'Rourke, 2003) accelerated and reached historic peaks that would not be surpassed for 60 years. After deregulation, public mobilization of capital and knowledge to support a liberal economy spurred the performance of the British economy, the continent sought to imitate these reforms. The tide of history had turned decisively in favor of liberal capitalism.

Polanyi paid special attention to the manner by which any weakness or shortfall in the system was presumed to be a result of insufficient liberaliza-

tion requiring further application of *laissez-faire* principles. Regulations emerged in the 1870s across multiple countries in myriad domains including "public health, factory conditions, municipal trading, social insurance, shipping subsidies, public utilities, trade associations, and so on" (Polanyi, 1944: 153). Interest groups successfully sought greater protection against low-wage immigrants (Chiswick & Hatton, 2003), volatile relative exchange rates and prices (Obstfeld & Taylor, 2003), and cheaper imports (Findlay & O'Rourke, 2003). Numerous initiatives to cushion the impact of unfettered markets, including the rise of progressive business school training, emerged in order to maintain the dominant logic of liberalism. As a result, repeated global economic crises could not dent support for these policies. Eichengreen (1996) notes that this "socially constructed institution" survived precisely because of the isolation of economic policy from political pressure made possible by the primacy of a liberal ideology and further supported by narrow political participation.

Even in the aftermath of World Wars I and II and the Great Depression, Polanyi (1944) claimed that economic liberals sought to explain the break in economic progress in terms of deviations from their proposed policy ideal. Despite the clear threat posed by rising worker militancy best embodied in the 1917 Russian Revolution but by no means limited thereto and the rising calls for a more active state role in rationalizing production, providing social welfare and minimizing unemployment (Holloway, 1995), no allied nation abandoned the rhetoric of liberalism in the interwar period even as they were slowly regulating its excesses. The focus in the aftermath of World War I was on the resurrection of the gold standard and the best means to allow industry to control labor threats to the capitalist order. It is not that criticisms and counterpositions were not present in academic or social discourse, but that only one pattern of connection between the economic and political spheres was legitimate among policy makers.

The Triumph of the Regulatory State

A brief victory for ideological purity in the implementation of liberal economic policies in response to the onset of another global financial crisis (e.g., efforts to reduce deficits) was followed by the final and cataclysmic collapse of the 19th century liberal economic order and the rise of a new confidence in state planning and control (Crotty, 1993). Depending on the depth of the employment and

financial crisis faced by policy makers in a given country, national policy initiatives to expand the states' role were either revolutionary or negotiated. Polanyi argued that where unemployment, class tension, exchange rate uncertainty, and imperial rivalry were highest, fascism emerged in dramatic fashion. By contrast, where the failures of the neoliberal order were milder, or where they were cushioned, longer, more gradual transitions to a new economic order took place. In either event, the end state was an economic system in which the power of the market was tightly coupled with state regulatory control that confidently pursued the engineering of superior outcomes.

In the United States, set against the backdrop of multiple false dawns leading out of the Great Depression, President Roosevelt's second State of the Union Address formally and eloquently marked the ascension of a new hegemonic vision of the appropriate role of government in economic activity. Not only was the market economy not self-regulating, it was self-destructive. A better system had to be constructed by policy makers who readily seized hold of the emerging toolkit provided by Keynes' theory, new quantitative modeling tools, and a new belief system highlighting state and regulatory capacity to achieve their desired ends.

Within a few years of the publication of Keynes' *General Theory*, the focus of government policy making had changed (Hall, 1993) from a focus on enhancing the efficiency of the market for labor to targeting the level of employment (Johnson, 1971; Stanfield, 1974). National statistical offices had restructured their statistical reporting to make it amenable to Keynesian analysis (Akerlof & Shiller, 2009: 15). The Investment Saving/Liquidity preference and Money supply equilibrium (IS-LM) diagram was incorporated within undergraduate macroeconomics courses and short-term policy analysis around the world (Dimand, 2006). Girded by the success of state interventions in national wartime economies as well as in the Marshall Plan and motivated by fear of a repetition of mass unemployment of the 1930s, the principal industrialized countries in the postwar period adopted formalized goals of full employment that were to be realized by a scientific manipulation of government fiscal expenditures (Jones, 1972). General equilibrium models of national and even the global economy proliferated (Akerlof & Shiller, 2009: 16). In the developing world, the goal was industrialization, which, it was argued, would free the peripheral countries from their dependence on the core (Love, 1980; Prebisch, 1963). Both sets of countries possessed confidence in the state's capacity to attain their respective goals.

Empowered by these practical successes, theoretical arguments, data and modeling tools, the 20th century economist shifted in role from a cautionary prophet to a practical engineer, seeking to unlock the path to salvation (Boettke & Horwitz, 2005). The role of government in a market economy was no longer indirect (i.e., setting the foundation in which economic activity could take place), but rather direct action (i.e., undertake the activities that would attain and maintain full employment). Instead of insuring that the invisible hand could operate, policy makers optimized against constraints (Boettke & Horwitz, 2005: 26). Development economics evolved under the enlightened leadership of economists who first calculated the investment gap needed to regain a convergent growth path, and subsequently, the human capital and policy gaps. In each instance, the presumption was that well-intentioned economists guided by theory could engineer progress better than an unregulated market.

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The initial success of these models and resulting policy prescriptions in the recovery of Western Europe from the devastation of World War II cemented their legitimacy (Toye, 2005). Criticisms from both the right (Buchanan, 1975; Buchanan & Tullock, 1962; Downs, 1966; Friedman, 1962, 1968; Hayek, 1960; Krueger, 1974; Lucas, 1976; Olson, 1965) and the left (Arrow, 1951; Myrdal, 1968, 1957; Seers, 1969, 1962) were voiced but largely ignored. Much as the liberal order of the 19th century survived the persistent challenges of 1870–1917 before slowly succumbing to collapse in 1917–1929, accommodations were made without sacrificing the new worldview. Notably, developmental economics was separated from open-economy macroeconomics so as to allow for a greater emphasis on context, including state capacity, political cleavages, and limited human capital (Leys, 2005). Capital controls were introduced, then wage and price controls. The wealthiest countries in the world turned to the International Monetary Fund or petroleum exporters for liquidity and capital inflows.

When the postwar gold standard finally collapsed under the strain of the war on poverty and the war on Vietnam in the early 1970s, exchange-rate volatility and monetary policy responses further complicated government regulation. Exacer-

bating this strain was a rising tide of pressure for a capture of a greater share of rents by labor and by commodity suppliers, generating, for the first time since the World War II, the possibility of substantial inflationary pressure. Financial markets and corporations responded to the new uncertainty and pressure by globalizing production and seeking to hedge national exposure. This combination ironically contributed to an investment boom in emerging markets that could simultaneously be expected to offer lower wages to firms in industrialized ones and diversification of financial exposure for capital exporting Organization of the Petroleum Exporting Countries (OPEC) members. These international capital flows increased the leverage of international forces, including the opinions regarding appropriate policies on national economic policy making. Suddenly, fiscal policy could no longer be focused solely on the maintenance of aggregate demand at a level consistent with full employment. Price stability, exchange-rate stability, wage stability, and financial-system stability were all at various points in time and in various markets the prime focus of government policy makers eager to maintain international credit or investment.

The Rise (and Fall?) of Neoliberalism

After these rapidly evolving targets contributed to the economically tumultuous decade of the 1970s, another policy change (Hall, 1993) occurred, favoring an alternative belief system of neoliberalism (Kelly, 1997). Beginning in Chile under Pinochet with the assistance of a group of economists trained at the University of Chicago (Corbo, Luders, & Spiller, 1996; Velasco, 1994) which had long been a focal point for criticism of Keynesian theory and policies, the neoliberal revolution spread to the United Kingdom and the United States. Next, emerging markets adopted it under the guise of the Massachusetts Avenue or Washington consensus (Williamson, 1990) supported by the World Bank and International Monetary Fund as well as a wide range of global intermediaries, including modern business schools that reinforced and diffused the belief system to traders, fund managers, analysts, and managers.

Once again, markets free of regulatory encumbrances were seen as the answer to the social and political problems of society. Less government ownership, operation and intervention could together untap heretofore constrained markets that would create new technology, jobs, and industries and exploit connections between technologies and nations, thereby promoting higher employment

and more rapid economic development. Where the system underperformed, it was because the burden of state ownership, operation, or regulation distorted or corrupted the market. The appropriate policy response was privatization, outsourcing, deregulation, and a general reduction in the tax revenue and expenditure of the state. Government regulation undermined the market rather than improving upon it. Countries that varied substantially in their histories and institutional contexts chose highly distinct paths of implementation (Block, 2007; Lindvall, 2006) and by no means converged in their policies or practices (Guillén, 2001), but the general tendency toward a greater role for markets was unmistakable.

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Massey, Sanchez R., and Behrman (2006) highlight the broader policy prescriptions fostered by these neoliberal beliefs and the noble ends their adherents believed they could attain by encouraging their adoption. Once again paralleling Polanyi, they note the religious nature of these beliefs and the systematic planned nature of the policy reforms they engendered:

The true believers of the Washington Consensus had single-minded faith in laissez-faire liberalism and fervently believed that by removing the yoke of government, "free markets" would naturally emerge to solve the nation's social and economic problems. Their faith was such that Nobel-prize winning economist Joseph Stiglitz (2002: 35) has called them 'market fundamentalists', people who knew *by assumption* [that] markets work perfectly and demand must equal supply for labor as for every other good or factor [so] there cannot be unemployment, the problem cannot lie with markets. It must lie elsewhere—with greedy unions and politicians interfering with the workings of free markets.

Having discovered the fundamental truth of free markets, officials at the U.S. Treasury and the International Monetary Fund were not content simply to follow the path of enlightenment themselves—they felt compelled to evangelize. They believed that the policies specified by the Washington Consensus

could and should be applied universally and thus felt justified, indeed driven, to use their institutional power to impose the consensus with religious zeal on countries throughout the world, irrespective of prior conditions, history or circumstances (Babb, 2003, Naim, 2000, Williamson, 2003, 2000). (Massey, Sanchez R., & Behrman, 2006: 11–12).

As compared to the economic liberalism of the 19th century, neoliberalism enjoyed a similar hegemonic status supported by numerous coercive intermediary actors.

As in the rise of a regulatory paradigm 50 years previously, it is also important to note both the availability of a new (or, at least, reconstituted) ideational paradigm and the pragmatic eagerness of national policy makers to turn to such a paradigm for aid in the crafting of policy solutions in the face of mounting performance crises. The neoliberal revolution diffused globally because academic theory was available and backed by powerful national and international actors, but also because national policy makers confronted inflation, unemployment, debt crises, balance of payments crises, financial crises, and other systematic failures often linkable to politically motivated intervention in their economic systems. Fourcade-Gourinchas and Babb (2002) brilliantly trace out these intertwined factors in their four country qualitative analysis entitled "The Rebirth of the Liberal Creed." Depending on the timing and depth of the crisis of the regulatory state and the response of key local and global institutional actors, the adoption of neoliberalism was either sudden and dramatic shifts in domestic power (e.g., Chile and the United Kingdom) or more gradual and negotiated shifts, as existing domestic players sought to come to terms with a new international order (e.g., Mexico and France).

The neoliberal era, as is often the case for a revival of an antecedent movement, does not appear on track to form the basis of a long 21st century or even, as the case of the regulatory state, a half-century. Beginning with the financial crises of the mid- to late-1990s in Latin America, East Asia, and Russia, and accelerating through the collapse of the dot-com bubble, the accounting scandals of Enron, WorldCom, Parmalat, and the global financial crisis of 2008–2011, it seems likely another pivot point in the history of economic policy making is fast approaching. The question of whether the policy response at this moment postpones the reckoning until the advent of the next crisis, leads to a reversal to a more regulatory statist belief

system akin to the experience of the 1930s–1950s, or actually addresses the weaknesses in the neoliberal model akin to the extension of the long 19th century that occurred in response to the crises of 1870–1890. The answer to this question hinges upon the relative success of competing causal narratives that explain the crisis and the resulting set of policy responses.

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The first interpretation focuses on policy, regulatory, organizational, modeling, or personal failures that led to the imperfect implementation of the neoliberal model. On the policy front, governments and financial institutions are faulted for providing excess liquidity with insufficient due diligence. Implicit blanket bailout guarantees or incomplete regulation of the shadow financial system are other common culprits. Some call attention to omissions from models or other errors that priced certain assets. Others place blame on irrational or morally questionable individual decisions of lenders, borrowers, investors, traders, buyers, and consumers. Despite the devastating consequences, these logics have an appeal in that they each give rise to straightforward, if difficult to implement, prescriptions: better policies, better regulation, better models, and, finally, better information, education, or monitoring and punishment of individual behavior all of which allow the neoliberal model to reach or come closer to its idealized state. If our policy response to the crisis focuses on insuring regulation minimizes its impact on efficient markets, as seems increasingly likely, we may only be setting the stage for the true crisis of neoliberalism that is yet to come. If, by contrast, we seek to engineer, through government regulation, a superior outcome to that generated by markets, we run the risk of repeating the swing to regulation of 1930–1950.

A second interpretation focuses instead on the system linking governments, firms, academics, and individuals each of whom operate in an isolated manner under the guidance of the neoliberal belief system. The above actors reinforced or augmented each other's risk-enhancing behaviors, thereby increasing the probability of a systemic crisis. This stream perceives the crisis as a "normal accident" caused by highly complex, tightly coupled, and interdependent linkages which made the crisis inevitable (Guillén & Suárez, 2010;

Palmer & Maher, 2010; Schneiberg & Bartley, 2010). Policy implications include country- or context-specific reductions in system complexity, coupling, and linkages as well as the introduction of automatic stabilizers that counteract the inherent tendency for such systems to adapt in a short-term efficiency-enhancing but long-term self-destructive manner (Abolafia, 2010; Block, 2010; McDermott, 2010; Zuckerman, 2010). Akin to reforms implemented in response to the crises of 1870–1890, the goals are not to engineer superior outcomes to those provided by markets but to acknowledge markets' highly embedded nature, cushion their rough edges that threaten their own long-term viability, and harness their power for societal gain (Dobbin, 1993; Fligstein, 2002).

The first interpretation can give rise to a policy response of a resurrection of the neoliberal status quo or a fundamental reversion to greater regulation; whereas the second interpretation would require institutional change to neoliberalism. Within each general policy response variation would exist across countries depending on the severity of the current crisis and the relationship between key political and social interest groups. The broad outlines of the first two such possible responses are, however, beginning to come into focus, whereas there is little evidence supporting the third.

The dominant policy response consistent with the interpretation of the crisis as resulting from a series of linked one-off failures involves minimal institutional change with a massive shift of current and potential future liabilities from the private to the public sector without an associated shift in control rights or authority. The desire to avoid a repeat of the Great Depression where the government held onto liberal ideals as the economy sank around them, led to rapid and concerted efforts to maintain the liquidity and confidence in the financial system. Public sector deficits soared to unprecedented peacetime levels, leading to debt burdens that are likely unsustainable in many industrialized democracies. With the worst-case scenarios of a repeat of the Great Depression seemingly averted, structural reforms to address the transparency and governance of highly leveraged financial institutions have been shelved or, where passed, are in the process of being weakened in the implementation phase. As the stock market recovers and the juggernaut of the Chinese economy continues its rapid growth, the goal is to return to business as usual as rapidly as possible and rely on growth to spur deleveraging.

A second alternative, akin to the reversals that occurred in the 1930–1950 and 1970–1980 when con-

confidence in liberalism or regulation radically shifted, can be found in the increased legitimacy of "state capitalism." A growing number of the poster children of neoliberal reform efforts in Latin America (e.g., Bolivia and Argentina); East Asia (e.g., Thailand); and Central Europe (e.g., Estonia) are now in the throes of populist leadership who are stepping in to control the excesses of markets or facing simmering threats to the stability of their political institutions. The public in these nations perceived adherence to the stipulations of neoliberalism to be the definitive cause of their current hardship. The East Asian crisis is known locally as the "IMF Crisis" on this account. Privatization, liberalization, openness to foreign trade, and capital flows once seen as the pathways to economic salvation are now seen as elite power plays to either capture rent-generating assets for themselves or to constrain the government from following redistributive policies that could destabilize an economy dependent upon foreign trade or capital.

The cynicism is taken to an even higher level in Russia, where numerous entrepreneurs and state-owned company managers stripped the value of assets through offshore shell corporations. In a forthright mea culpa, Bernard Black, Reinier Kraakman, and Anna Tarassova (2000), some of the architects of the Russian privatization program, highlight their failure to perceive the importance of developing "institutions to control self-dealing." Not independently, many Russian citizens now equate capitalist reform with theft by the elite.

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In these early adopters of radical neoliberalism the state is regaining ascendance. Ian Bremmer (2010) draws attention to the broader rise of "state capitalism" or "the strategic rejection of free market doctrine." Bremmer sees state-owned oil companies and other enterprises, sovereign wealth funds, and state-supported private national champions as forming a coherent group of actors characterized by close public-private ties that give primacy to national political, over economic, objectives. The focus of the state's attention is strategic control of the commanding heights of an economy. As opposed to the cyclical frictions and inequities caused by technological change, state capitalism would exhibit greater stability at the cost of structural ineffi-

ciency and inequities caused by political rent seeking. Individual rights in the economic, political, and social spheres will be sacrificed to collective purposes.

A third trajectory that, mirroring the progressive reforms of 1890–1910, addresses the failings of unfettered markets with substantive government intervention supported by industry and academia, appears less likely by the day. In the remainder of this essay, I chart a strategy to enhance the likelihood of such an outcome. Note that, this strategy requires adaptation within business school research and teaching that aids these schools in fulfilling the promise of progressive management.

**Lessons for Policy Makers,
Managers and Academics**

A number of substantive and strategic lessons emerge from this condensed review of the paired historical records of reforms to business schools and macroeconomic policy making. The successful economic policy making reforms of 1930–1950 and 1970–1980 strongly influenced business school reform efforts. The swing to regulation and emphasis on quantitative modeling in 1930–1950 provided a clearer set of prescriptions than institutional economics and interdisciplinary efforts more broadly. Similarly, the rise of neoliberalism in 1970–1980 provided a readily available means to respond to the Carnegie and Ford Foundations' efforts to reassert a disciplinary-based paradigm. The broader economic policy-making environment can thus subvert or reinforce internal reform efforts within business schools. Today, with similar and related critiques leveled at business schools and at neoliberal economic policy making, a unique opportunity for complementary reforms exists. While the substantive lessons on the nature of this reform that follow from this analysis echo those of contemporary critics of business school education (see Table 1), the strategic lessons extend them. In particular, I seek to emphasize broader ideational forces in the realm of economic policy as well as the importance, in times of institutional reform, of alliances with pivotal institutional actors in the public, private, and nonprofit domains.

First, the assumption of global convergence on a strong form neoliberal model that is increasingly prevalent in business school research and pedagogy particularly within finance departments focused on asset pricing has no support in the historical record. Cycles of support for liberalism and regulation are likely to repeat in business schools and in the countries in which they operate with

TABLE 1
Extant Criticisms of and Recommendations for Reforming Business School Research and Pedagogy

| Threat/Challenge/Criticism | Author(s) |
|---|--|
| Softer skills. Reduce dominance of (financial) economics | Bennis & O'Toole (2005); Duncan (2004); Ghoshal (2005); Giacalone & Thompson (2006); Hawawini (2005); Mintzberg (2004); Mintzberg & Gosling (2002); Mintzberg, Simons, & Basu (2002); Mitroff (2004); Pfeffer (2009a); Rubin & Dierdorff (2009); Starkey & Tempest (2009); Wright (2010) |
| Lost legitimacy | Bennis & O'Toole (2005); Hawawini (2005); Khurana & Nohria (2008); Mintzberg (2004); Mintzberg & Gosling (2002); Mintzberg, Simons, & Basu (2002); Mitroff (2004); Pfeffer & Fong (2002); Pfeffer (2009a); Trank & Rynes (2003) |
| Loss of connection to policy and practice | Pfeffer (2007, 2009b); Christensen & Carlile (2009); Raelin (2007); Gulati (2007); Bennis & O'Toole (2005); Pfeffer & Fong (2002); Pfeffer (2009a) |
| Globalization | Hawawini (2005); Thomas (2007); Mintzberg & Gosling (2002); Ghemawat (2009); Doh (2010) |
| Lack of integration across disciplines and functions | Mintzberg & Gosling (2002); Navarro (2008); Bennis & O'Toole (2005); Pfeffer (2009a) |
| Governance and competition | Hawawini (2005); Thomas (2007); Seers (2007) |
| Information and communication technology | Hawawini (2005); Thomas (2007) |
| Resource constraints | Hawawini (2005); Thomas (2007) |
| Faculty engagement | Mintzberg & Gosling (2002) |
| Recommendation | Author(s) |
| Link research to policy and practical phenomena including an explicit clinical or action component | Bennis & O'Toole (2005); Christensen & Carlile (2009); Gulati (2007); Mintzberg & Gosling (2002); Navarro (2008); Pfeffer & Fong (2002); Pfeffer (2009a); Pfeffer (2007, 2009b); Raelin (2007); Rubin & Dierdorff (2009); Thomas (2007) |
| Greater reflection on interpersonal connections, leadership, and impact on society, including stronger ethical training | Ghoshal (2005); Giacalone & Thompson (2006); Mintzberg (2004); Mintzberg & Gosling (2002); Mintzberg, Simons, & Basu (2002); Mitroff (2004); Pfeffer (2009a) |
| Global life-long stakeholder network focused on knowledge creation | Hawawini (2005); Mintzberg & Gosling (2002); Pfeffer & Fong (2002); Pfeffer (2009a) |
| Activist dean or professional association in support of pluralism | Bennis & O'Toole (2005); Ghoshal (2005); Navarro (2008); Pfeffer & Fong (2002) |
| Greater engagement with "classics," social sciences, arts and humanities | Bennis & O'Toole (2005); Duncan (2004); Starkey & Tempest (2009); Wright (2010) |
| Professional code. Professionalization | Khurana & Nohria (2008); Trank & Rynes (2003) |
| Functionally integrated faculty | Navarro (2008); Pfeffer (2007) |
| Bring practitioners into review process | Pfeffer (2007) |
| Compete in the market for knowledge services | Seers (2007) |
| More experienced students | Pfeffer & Fong (2002) |

outcomes in a given nation at a given time displaying enormous contextual variation and path dependence based on national institutions, preferences, experiences, and conditions. As a result, our research and pedagogy should restore the balance between universal models of human behavior prevalent in economics and those more embedded in societal, psychological, and political context, including, and even featuring in that context, cross-national variation. While government regulation should be viewed critically and not assumed to be able to correct market failures, the presumption that government regulation always underperforms or interferes with efficient market outcomes is an ideological or religious belief unsupported by historical or current context and unbecoming management research and pedagogy.

While government regulation should be viewed critically and not assumed to be able to correct market failures, the presumption that government regulation always underperforms or interferes with efficient market outcomes is an ideological or religious belief unsupported by historical or current context and unbecoming management research and pedagogy.

Second, reforms to existing and entirely new belief systems form, gain strength, and adapt as the policy their adherents espouse is broadly per-

ceived to address the greatest failures of the status quo. The next belief system is not chosen out of some rational modeling of individual net present value or utility, but rather out of a framing battle between different political and social coalitions tapping into fears and aspirations to cast their preferred belief system and policies as the simple and easily implementable solutions to the most pressing problems of the day. This battle takes place not just in the corridors of the state or academia but also broadly, involving society at large with advocates of competing reforms using the media, timely contests for electoral power, and powerful new ideas to sway the undecided in favor of their preferred policy alternative (Hall, 1993). Given the clear interest of managers in the continuity of the neoliberal belief system that facilitates further globalization of economic activity, active participation in this framing battle against proponents of state capitalism constitutes self-interested behavior. Such political strategies should render necessarily complex principles and reforms down to their simplest essence and clearly distance the reforms from recent practice. If incumbents do not pursue such a strategy, they run the risk of being displaced by more radical institutional entrepreneurs in the future.

Third, belief systems fail when their adherents and policies lose sight of the necessarily incomplete vision they offer of reality. Overconfidence in a belief system, particularly in the face of clear societal demands for compromise or adjustments, contributes to its eventual replacement. Inaction or a return to business as usual without adaptation in response to the current crisis could trigger more deleterious change. Efforts to claim that quick fixes in policy, regulation, practice or behaviors in an otherwise still valid system are sufficient instead of seeking change in that system, could trigger the kind of punctuated change in institutions that characterized the 1930–1950 and 1970–1980 periods rather than a more gradual evolutionary change such as occurred in 1890–1910. We need to be more humble, modest, and pragmatic regarding the “truths” that we espouse and teach to students and to policy makers while prominently acknowledging the need for continuing adaptation.

Instead of dismissing admittedly difficult challenges to make academic research more practically relevant, this insight calls for responsive innovation in pedagogy. Evidence that agency problems undermine the legitimacy of markets should be met head-on with corrective reforms rather than treated as incidental or unavoidable. Faculty should actively engage in the process of debate, implementation, and enforcement of re-

forms to address the observed patterns of violations of fiduciary, professional, and personal responsibility. These reforms could include the development of a professional code or oath of conduct for students; conflict of interest guidelines for managers, politicians, and academics; and enhanced oversight of management, politicians, and schools by independent boards, government regulatory agencies, and civil society. Instead of using lifelong education as a marketing tool, we should make it a centerpiece of our response to the necessarily incomplete knowledge we currently possess and can transfer to students in the classroom. In each instance, we should take seriously and engage with criticisms and failings that have broad societal legitimacy rather than retreat to disciplinary ivory towers where existing theory highlights the irrelevance of such criticism and failings or the hopeless complexity of efforts to respond thereto. Our obligation as professors in an applied field is not merely to disciplinary foundations nor our students’ perceived immediate needs, but rather the long-term implications of the frontier of relevant disciplinary insights for practice.

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Engagement with these and other reforms which address clear criticisms and failings in current research and pedagogy requires serious adaptation and structural reform within business schools that goes against the dominance of narrow disciplinary-based research and pedagogy, particularly that dominated by agency theory and asset pricing models. Unfortunately, there exists one particularly noteworthy continuity across these paired histories that undermines the impetus for such institutional change. Despite calls for greater embedding of business schools in a broader and social purpose and regardless of whether economic policy swung toward liberalism or regulation, the power of economists and economic logic has progressed unabated. Economic tools are either the practical toolbox provided to narrow functional specialists or the roots of broad-based theoretical paradigms that define business school research and pedagogy. Economists are either the designers of new markets that can reveal truth or the

guiders of markets that, from the commanding heights of the public sector, can tame market failures.

Kogut and Spicer's (2004, 2005) retrospective accounts of the failings of the World Bank's embrace of neoliberalism argue that this may be a function of the economics discipline's relative ability to generate greater perceptions of a singularity of voice on the nature of the best policy and the identity of the best prophets to whom policy makers may turn as compared to peer disciplines of sociology or political science where differences and context engender greater respect. The authors highlight the challenge given the status quo dominance of economists in the study and discourse regarding economic policy making to reestablish a multidisciplinary approach. They close by advocating the formation of an interdisciplinary research institute within the World Bank to foster such a multidisciplinary approach.

I have essentially built a parallel call here for structural reform at business schools. Note the parallels between the call for a more socially and embedded view of business school research and pedagogy and of economic policy making; the threats to legitimacy faced by business schools and the institutional actors who are most associated with neoliberal reforms; the disconnect between business school research, pedagogy, and practice and between neoliberal research, pedagogy, and practice; and the lack of attention to globalization and national institutional contexts in business school research and pedagogy and in economic policy making. The parallels are not only superficially stark but share at their root the same underlying cause: the hegemony of neoliberal economics in business school research and pedagogy and in economic policy making. The assumptions of neoliberal economics do not lend themselves easily to the representation of the complex social interactions that define business school graduates' day-to-day lives, thus leading to an increased distance from managerial practice, and these assumptions possess a universality that obviates the need to consider national institutional context. These shortcomings were contributing factors in the global financial crisis and in the threat to the legitimacy of business schools.

Scholars in psychology, behavioral economics, sociology, and other disciplines have, by contrast, and with increasing sophistication, demonstrated that rational self-interest is not, in fact, the sole motivator of human behavior. Individuals place high valuations on fairness and reciprocity in exchange. They derive utility from punishing malfeasance. The choice of words and the choice of frame

within which a problem is described or perceived alters the decisions of actors facing an otherwise identical choice. We seek to avoid certain losses even when it is irrational to do so, as the expected value of soldiering on is far lower. Fear and envy drive preferences. Trends are found where none exist, and crowds are followed when there is no rationale for doing so. Nobel prize-winning economist George Akerlof and coauthor Robert Shiller (2009) highlight the importance of these "animal spirits" for explaining eight great economic puzzles in modern history that economics alone cannot account for and they emphasize the need to incorporate these insights into economics training and discourse:

For me, alternative views that must be incorporated into our teaching include those promoted by the other social sciences: psychology, sociology, political science and anthropology. For me, maintaining a proper perspective on alternative views means also incorporating historical analysis, real historical analysis such as that which proceeds in our history departments, into our teaching about economics. For me, too, we also must keep in view the fundamental importance of institutions—our established organizations, practices and laws—and remind our students that these must be taken into account before judging any economic model (Shiller, 2010: 407).

The same need, perhaps even more pressing, exists in our teaching of business.

Nobel prize-winning economist Oliver Williamson has long identified the behavioral assumptions of opportunism and bounded rationality as key elements in the explication of the boundaries of organizations in the modern economy. While the field of behavioral economics has been highly vibrant in recent years, the most substantive advances are originating outside the business schools in which that research and resulting pedagogy could have the greatest practical impact. If we are to avoid going too far in the reliance of regulation and government action to punish greed and self-dealing behavior by managers, we need to better capitalize upon our increasingly sophisticated understanding of the process of human decision making and how the gaps between the conventional theoretical view of *Homo economicus* and the true power of "animal spirits" have contributed to self-destructive theory and practice. We need to develop a theory and practice of *Homo therian*.

Such a theory would inculcate future managers with a keen understanding of historical examples in which short-term self-interested behavior destroyed long-term shareholder value. On equal footing with the financial-economic process of pricing would be the psychological, sociological, and political process of joint value creation and the myriad means by which it can run aground. It would not merely highlight the ability of economic theory to generate rational herding, but rather would emphasize the struggle of teams, groups, organizations, communities, professions, fields, societies, and nations to overcome problems of collective action in diverse contexts. It would identify mechanisms to share information, reward fairness, insure reciprocity, and, if necessary, punish malfeasance and the sociopolitical processes involved in implementing them. It would highlight the likelihood that deviations from the pursuit of collective interests can be financially rewarding in the short term but ultimately destructive individually and collectively. In such a paradigm, neither unfettered markets nor enlightened governments would be able to independently engineer optimal outcomes. Rather, sociopolitical processes would have to be constructed by progressive individuals, groups, organizations, and polities in order to realize the economic potential of markets (Beckert, 2007).

In this paradigm, utility functions would include not only payoffs but also perceptions of fairness or equity and distributive or procedural justice that experiments conclusively show alter both human and primate subjects' behavior in exchange relationships (Bohnet, 2006; Camerer & Fehr, 2006; Charness, Fréchet, & Qin, 2007; Charness & Haruvy, 2002; Charness & Rabin, 2002; Chen & Hauser, 2005; Dal Bo, Foster, & Putterman, 2008; Fehr & Simon, 2000). Choices would further have to be set against the context in which they were presented, including the information on the choices of peers (Akerlof & Kranton, 2005) as well as the words, frames, or belief systems invoked to support or critique an otherwise identical argument (De Vreese, 2004; Druckman, 2001; Ferraro, Pfeffer, & Sutton, 2005; Levin, Gaeth, Schreiber, & Lauiola, 2002; Levin, Schneider, & Gaeth, 1998; Polletta, 1998; Price, Tewskbury, & Powers, 1997; Rimal & Real, 2003; Rothman & Salovey, 1997; Tversky & Kahneman, 1981a, 1981b). As a result of modifications to the utility function of individual actors, focus would shift from optimizing payoffs to designing adaptive governance.

The context-specific nature of individual choice would sideline or at least diminish the importance of the discussion of optimal incentives or legal contracts that motivate or constrain a population of

Homo economicus in favor of a greater weight on the discussion of overlapping mechanisms to facilitate the development of trust, cooperative behavior and to enhance the presentation of argument to a population of *Homo therian*. These sociopolitical governance mechanisms would emphasize not mechanisms of price or fiat supported by legal authority within a hierarchy, but rather mechanisms that "chang[e] states of mind" (Barnard, 1968: 141) by creating a sense "of communion . . . the feeling of personal comfort in social relations that is sometimes called solidarity, social integration . . ." (Barnard, 1968: 148). Such sociopolitical governance mechanisms include the cultivation of a desire for social status and avoidance of social sanction (Greif, Milgrom, & Weingast, 1994); the development and reinforcement of a common identity (Dutton, Dukerich, & Harquail, 1994); the alignment of interests (Mesquita, Morrow, Siverson, & Smith, 1999); the adherence to norms of reciprocity (Adams, 1965; Gouldner, 1960) or to precepts of distributive (Blau, 1964; Homans, 1958) or procedural justice (Lind & Tyler, 1988; Thibaut & Walker, 1975); and the deployment of influence strategies (Kelly, 2006).

Micro-based management researchers have applied these insights to examine how to resolve intractable and often irrational conflicts between interest or identity groups (Fiol, Pratt, & O'Connor, 2009), deepen and enrich relationships with stakeholders (Cardador & Pratt, 2006; Sen, Bhattacharya, & Korschun, 2006), and employees (Bhattacharya, Sen, & Korschun, 2008; Rubin & Dierdorff, 2011; Rupp, Ganapathi, Aguilera, & Williams, 2006; Turban & Greening, 1997). Key tactics include greater contact between interest or identity groups (Bartel, 2001; Pettigrew, 1998; Pettigrew & Tropp, 2006); the choice of language to evoke moral obligations, values or fairness (Sonenshein, 2006) or legitimacy and trustworthiness (Elsbach, 2006); the use of labels, symbolic behaviors, and physical markers to reinforce reputation and identities (Elsbach, 2006); greater listening by decision makers to avoid unintentional ambiguity and unhelpful reframings of decision (processes) (Sonenshein, 2009); workers' empowerment, information sharing, and a climate of trust and respect (Sonenshein & Dholakia, 2011; Spreitzer, Sutcliffe, Dutton, Sonenshein, & Grant, 2005); and consideration of ideology alongside finance as a motivator and constraint (Thompson & Bunderson, 2003).

Management training should place greater emphasis on these mechanisms not only where they currently dominate (e.g., in employee relations, internal organizational change processes, and negotiations), but also in their ongoing external stake-

holder relations strategies, in the strategic interactions among organizations both private and public, and in their modeling of consumer behavior and financial markets. Furthermore, they should deploy these influence strategies with a greater recognition of their systemic consequences in the midst of myriad such interactions. Greater awareness of the potential for "normal accidents" would lead to greater humility and a penchant for simpler less tightly coupled and complex systems, more transparency and attention to the potentially destructive feedbacks between the actions of autonomous individuals, academics, organizations, regulators, and policy makers spanning nations with varying institutional contexts and belief systems (Lounsbury & Hirsch, 2010; MacKenzie, 2009). This analysis would not only recognize but emphasize variation in institutional contexts (Block, 2007; Djelic, 1998; Dobbin, 1993, 1994; Fligstein, 2002; Guillén, 2001).

Such a refocusing of academic research, classroom time, and managerial and policy maker mindshare will not come easily. While the theoretical components of an alternative paradigm are easy to identify, increasing their prominence, particularly in pedagogy, will require transforming curricula and dislodging incumbents and pushing back against the resistance of students, businesses, the media, journal editors and referees, tenure-promotion committees, and the professional association (Pfeffer, 2007; Trank & Rynes, 2003). Currently, many of these topics are taught at the tail end of required courses or in disciplinary-based electives seen as soft or lacking in immediate applicability in the high-powered world of investment banking or consulting. Transforming them into focal points of a curriculum and indeed an interdisciplinary social science would require faculty to organize phenomenologically as opposed to disciplinarily and cooperate in the design of new experiential exercises and other pedagogical material. Academics will have to surmount even more well-established obstacles to collaboration in research between the disciplines of psychology, economics, political science, sociology, anthropology, communications, and others interested in topics as seemingly diverse as institutional and organizational change, leadership, organizational behavior, organizational economics, negotiations, intercultural communications, and public and private influence tactics.

Kogut and Spicer (2004) seek to foster such an environment in the policy realm through the creation of an interdisciplinary World Bank Institute. Another possible forum in which such a transformation could take place is in modern professional

schools of management seeking to respond to the current financial crisis with a new vision that serves the interest of their stakeholders (i.e., current, future, and past students, faculty, employers and the communities in which they work and reside). These schools have long drawn in scholars from diverse disciplines and organized them around the study of practice as opposed to theory. The pull of home disciplines particularly through professional associations, journals, and the prospects for peer review, however, damper the realization of these organizations' potential. Given the discrediting of the neoliberal order, the historic origins of these schools, and the pressing need for a new vision of policy making, however, incentives suddenly seem in place to overcome these obstacles. Given the inherent barriers, success is still dependent upon strong leadership organizing multiple competing interests around a common vision in a fair and transparent process that offers clear potential benefits to stakeholders. It is ironic that the current crisis may enable just such a transformation. Lucy Kellaway writes in the *Economist* publication *The World in 2010* that:

in 2010, for the second year running, tens of thousands of overqualified MBAs will emerge with nowhere exciting to go. A very few will land jobs in investment banking, but those who want grand jobs in big companies or consultancies will be disappointed. Increasingly, they will go crawling back to their old employers to do pretty much whatever they were doing before for pretty much the same money. As the efficacy of a business school is measured according to the salary one gets when one finishes, both students and employers will question whether it is really worth the \$160,000 that a top MBA costs. This is not going to be a little recessionary dip. It will be a more fundamental reappraisal. The magical myth of the MBA has for some time left the facts behind . . .

How will business schools react to this threat? Will they continue to plead that their approach is sound but they simply misestimated a parameter in their financial models, or will they take the opportunity provided by this threat for a more holistic reevaluation of their research, pedagogy, and role in society?

Instead of the current emphasis on calculation and optimization, future managers need to be trained for a world of management under uncertainty and persuasion of internal and external stakeholders. Instead of teaching students how to

solve problems with defined answers, we need to train them to convince others to choose one uncertain answer and, most importantly, to separate the charlatans promising an easy path forward to eventual ruin from the engineers building a foundation for future corporate and societal prosperity. Financial valuation and mechanism design will continue to be core elements of the pedagogy, but the value added will come not simply from using them correctly but also mating them to improved models of individual and group behavior as well as system dynamics, such models that include at their core the fear of the unknown, loss aversion, envy, herding, interpersonal trust, identity, various framing effects, interdependencies, feedbacks and historical context. These topics currently introduced as addendum to existing models would become the centerpiece of a new curriculum and new research agendas in which their manifestations would be observed in multiple functional contexts.

Core classes and research streams would emphasize various facets of decision making under uncertainty and persuasion drawing on multiple faculty with individual expertise in and the context of a financial valuation exercise; the construction of a portfolio of investments or funding sources; the design of a hedge against future uncertainty; the design and execution of marketing strategies; the identification of a merger or acquisition target or product or geographic market or segment for diversification and the implementation of that strategy; the design and maintenance of a contract between counterparties; innovative products or services and entrepreneurial strategies; complying with and detecting fraud in accounting or legal practices; honing efficiency in production or supply chains and forecasting and influencing public policy or social (e.g., NGO or activist) preferences. As compared to teaching and researching these topics in isolation from each other, this new curriculum would highlight how certain common elements of human behavior that give rise to opportunity and risk cut across these managerial tasks or corporate functions. By better understanding these facets of human behavior, future managers and academics will be more likely to generate value for their organizations and for society than by focusing on optimizing any one element of corporate or societal activity. Not only would such a reconstruction turn the attention to the core drivers of value creation, it would also indirectly emphasize the virtue of seeing abstract connections between functional areas, identifying weak signals, and transforming risk into opportunity through analytical reasoning. In short, it would train managers and academics for the world as it is, instead of

for a world that can only be if we ignore basic elements of human behavior.

Metrics of success will differ from both the current focus of evaluation on ratings of student satisfaction as well as extant critics' focus on the inclusion of soft skills, cross-functional integration (capstones), examination of the global context, and experiential learning. Foundational courses in microeconomics and statistics will be joined and even integrated with courses or material from sociology, psychology, political science, logic, and causal inference. Functional or departmental tracks or requirements or majors will be treated as parallel contexts for study of these foundational materials rather than independent disciplines. This implies coauthorship and coteaching by scholars with PhDs from different disciplines, who individually publish in different disciplinary journals and cite different disciplinary foundational works will increase. The extent to which business school academic research and syllabi draw upon work in multiple disciplines will reverse their decline. Scholars and students will spend less seminar and class time surrounded by peers with similar training. Relationships with students will deepen from a transactional exchange of tuition for codified and well-established knowledge and employment-related networking to include long-term relationships whereby practitioners and their employers share data and access to current problems in exchange for contributing to a rapidly evolving set of knowledge.

Numerous calls to seize hold of similar opportunities have been made over the past decade and each has acknowledged both the potential rewards to and inherent difficulty in implementation. In reflecting on size years of experience with the International Masters Program in Practicing Management, Mintzberg and Gosling (2002) highlight the benefits of cross-functional, cross-country context reflection, analysis, and collaboration to generate actionable learning. They close by noting that they

see management education as walking, not on a tightrope but on a high alpine ridge, covered with ice and snow. On one side is a sheer drop—that is the cliff of academic irrelevance. We cannot allow ourselves to fall into that. On the other side, the terrain falls off sharply. This is the slippery slope of easy practicality. Start down there and you may never stop. We have watched too many programs slide down that way just as we can peer over the edge of the cliff on the other side to see overly academic programs in pieces

below. So if you wish to embark on this journey, the only viable place you can be is up on this ridge, where management development meets management education. It can be a tricky place—one that requires constant surveillance. But it can also be exhilarating. The future for better management lies here (Mintzberg & Gosling, 2002: 75).

Gulati (2007) and Raelin (2007) attempt to build a similar case for an interplay and even useful collaboration between theory and practice seeking to free “ourselves from the tribalism of either/or, to integrate rigor with relevance. If we succeed, we may be able to raise the tent poles of collaboration, rather than chopping down even their possibility” (Gulati, 2007: 781). Christensen and Carlile (2009) go as far as claiming such an integration can eliminate the distinction between research and pedagogy. I argue that among the best means to navigate this ridge, raise the tent poles, and narrow this distinction is to draw upon and help to further construct the nascent interdisciplinary academic perspectives on human decision making and interaction that are closely linked to business phenomena.

The barriers to such change, while still significant, may be eroding due to the rise in social science scholarship demonstrating the need to redefine *Homo economicus*, as well as the unique position of business schools to effect this interdisciplinary integration. Business schools typically include faculty from the multiple disciplinary backgrounds cited above studying common phenomena, they have the access to and are more sensitive to the needs of practitioners, and, finally, as Kellaway so pointedly notes, they are under extreme threat. Of course, such threat can paralyze as easily as invigorate. Past success can be an excuse for inaction. Short-term rises in the number of applicants can lessen any sense of urgency. Faculty closer to retirement than the frontier of their disciplines can resist the need for substantive change. The economics disciplinary orientation and specialization adopted in response to the Ford and Carnegie Foundation criticisms undermines entrepreneurial efforts to craft a distinctive interdisciplinary research and pedagogical identity centered on management. In the end, overcoming these impediments to progress will require enlightened leadership of the kind provided by Joseph Wharton, Rosewell McCrear, and other advocates of classwide as opposed to corporate, upper class, or individual interests.

Roger Martin, dean of the Rotman School of Management at the University of Toronto and recent

coauthor of a book questioning the design of traditional MBAs (Moldoveanu & Martin, 2008), claims,

Most MBA programs are taught in such a way that *rather than owning the models, the models own students*. Management research has become more thorough, rigorous, and technical, and it has developed tools based on complex models. Students in business school have to absorb many tools in a short time, so they aren't inclined to delve deep into the inputs or the workings of the underlying models. They focus mainly on the outputs. When professors try to go into the details, students make it clear that they prefer the take-aways—not its derivation or caveats. In any case, faculty members, proud of the models they've developed or sharpened, aren't eager to focus too much attention on situations in which their frameworks don't work. . . .

As a result of this little dance, MBAs join organizations with a toolbox full of models for which they primarily understand only the outputs. Worse, they believe: “I know a bunch of powerful tools that work in most, if not all, circumstances. I can therefore apply them aggressively, confidently, and to their fullest.”

To reverse this situation, . . . we teach students how to audit models, so they understand how they function and what the limitations are. We explain that every model—every single one—has limitations. Faculty members drive home the point that no model students will learn in the next two years will be perfectly suited to the situations they will face, and that they must build new models or modify existing ones. In addition, they are taught to reverse-engineer models so that they can analyze them and learn the skill of building logically robust models.

The Thunderbird School of Global Management has spearheaded the adoption by over 200 peer schools of “Principles for Responsible Management Education” in collaboration with the United Nations Global Compact. Yash Gupta, the dean at the new Johns Hopkins Carey School of Business, has emphasized the diffusion of behavioral and rational decision making as well as global perspectives throughout his school's new curriculum. Some European schools have long distinguished themselves upon their closer integration with either managerial practice or disciplines in the so-

cial sciences or humanities (Antunes & Thomas, 2008), which combined with their inherent multiculturalism, makes them increasingly attractive substitutes for MBA applicants (Mangan, 2010). Deans at many American, European, and Asian business schools have recently announced major curricula reforms or initiatives that include enhancing the emphasis on the soft skills of leadership, global context, sustainability, and practical relevance. A coordinated effort by these leaders on these core components of a reform agenda would build momentum toward institutional change.

In addition to coordinated enlightened leadership, the paired historical records highlight the need for a political strategy (Thompson & Purdy, 2009) that draws in external allies, particularly those that can provide funding and external legitimacy for institutional change. Progressive industrialists put forth their own financial capital to help found the major business schools between 1890 and 1910 at the same time that they supported progressive regulation of unfettered free markets. The United States military provided a boom to enrollment and research support during and after World War II. The Ford and Carnegie Foundations provided funding and leadership for the return to disciplinary foundations in the postwar period. Business school leaders who seek structural change to research priorities and pedagogy need to identify external and internal allies who can provide similar resources and legitimacy.

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Undertaking truly interdisciplinary research agendas and pedagogical reforms will require a massive commitment of resources at a time when countries, organizations, and individuals are likely to be deleveraging. Making a claim on any resources will require a credible output that benefits society beyond better trained managers who are less likely to contribute to the next scandal or crisis. One opportunity rests in research funding to solve some of the most pressing policy dilemmas of our time, including investment in physical infrastructure, reforming entitlements, improving educational systems, sustainable development, and energy policy. Each policy dilemma is so vexing not primarily because of technical challenges in design but because of the massive collective ac-

tion problem in implementation faced by governments, organizations, and individuals in the presence of widespread uncertainty. In short, each critical policy domain requires an integrative approach spanning finance, accounting, marketing, insurance, communications, strategy, organizational behavior, and policy. No institution brings these fields together under one roof like the modern business school. While each has historically felt the incentive to retreat to its own disciplinary core, public and private incentives to collaborate and work together on large-scale research initiatives can yield substantive gains. Historical examples of such efforts include the early efforts of the Rand Corporation or more recent work at the Sante Fe institute. Scholars from all disciplines would be welcome but required to work in interdisciplinary teams, not independent disciplinary-based groups. In some respects, this design seeks to learn from the history of the failed USAID initiative for the development of capitalism and democracy in Russia, which was granted to Andrei Shleifer's team at the Harvard Institute for International Development. That effort relied on a narrow group of financial economists as opposed to a broader interdisciplinary team assembled by competing institutions. Not only did the short-term financial calculus neglect institutional development but, through insider trading, it enriched the protagonists who, according to Judge Woodlock of the U.S. District Court in Boston, "conspired to defraud the U.S. government, engaged in self-dealing and violated conflict-of-interest regulations" (McClintock, 2006).

Civil society has drastically expanded its scale and scope in recent decades and offers numerous potential alternatives to the Ford and Carnegie Foundations. Prominent among them is the Aspen Institute and its Business and Society Program which, with the agenda of developing leaders for a sustainable global society, has pressured business schools to increase the weight placed on ethics, historical reflection, and sustainable enterprise. The Aspen Institute draws its leadership from the scions of the private sector, thereby enhancing their credibility and standing within the business school and policy community. Notably, the Aspen Institute has already joined one prominent civil society coalition for reform focusing on the adoption of a professional oath by MBA students (see <http://mbaoath.org/>). This coalition includes the Association for Professional Business Managers, Net Impact, the United Nations Global Compact, and the World Economic Forum Young Global Leaders. Exactly such a coalition should be assembled on the wider project described here. An

important element of attracting these organizations and signaling the credibility of the effort would be the adoption of the MBA Oath and a paired oath regarding business school faculty's management of professional conflicts of interest akin to those recently implemented by numerous medical schools with the support of foundations such as the Pew Charitable Trust.

Prominent individuals including Warren Buffet, Bill Gates, and perhaps some of 38 other billionaires who signed on with them to give away half their wealth to charity could further buttress the credibility of the effort and avoid charges certain to come from neoliberal academics and policy makers that these reform efforts constitute heresy that can only undermine and destabilize a tenuous economic recovery. Further credibility would come from prominent academic leaders which could include numerous Nobel prize-winning economists including George Akerlof, Ronald Coase, Daniel Kahneman, Douglass North, Elinor Ostrom, Amartya Sen, Joseph Stiglitz, and Oliver Williamson. Such a coalition of civil society organizations, prominent business leaders, and academics could serve as an important third party trigger for, contributor to, and even monitor of, reform efforts.

Implicit in this design is a link between effort at reform and pre-existing internal constituencies that favor change. By acknowledging and addressing the critiques in Table 1 and trying to implement the recommendations therein, this broader reform effort leverages not only external resources and legitimacy but also internal reformers. Explicitly highlighting the global focus of the reform and its emphasis on a broader class of stakeholders may also serve to craft alliances with powerful internal and external advocates for change in these dimensions. Finally, by relying explicitly on external organizations and individuals for legitimacy on an ongoing basis, reforms can hopefully minimize the destructive monopolistic or rent-seeking tendencies of a profession (Friedman, 1962; Peltzman, 1976; Stigler, 1971) while enhancing their professionalization (Wilensky, 1964) and knowledge-based (Abbott, 1988) advantages. Such an approach is particularly important in the profession of management given the certainty (and, arguably, the desirability) of allowing entry into the profession from individuals who lack an MBA, which is even more pronounced internationally.

Breaking the disciplinary silos that have reasserted themselves within business schools over the past 4 decades will take more than just internal leadership, external funding, and legitimacy. Business schools will need to experiment with numerous internal institutional innovations that alter the

incentives, particularly for junior faculty (Pharr, 2000; Thompson & Purdy, 2009). These might include tenure-track hires that sit outside departments in interdisciplinary research institutes; inducing faculty to join publicly funded interdisciplinary research efforts with teaching-load reductions; selecting students for admission with objectives other than maximizing their starting salary or the difference between that salary and their last salary; and offering longer tenure clocks for interdisciplinary scholars as compared to their disciplinary counterparts or for those who spend time with practicing managers as part of their research agenda as opposed to building abstract theory or using secondary datasets.

CONCLUSION

Markets' ability to realize their potential depends on their embeddedness in society. When markets assume primacy and subsume or seek to replace the underlying needs of humanity for self-realization, control, and social relations, people resist and seek to restore balance, security, and justice. Unfortunately, the same susceptibility to "animal spirits" that limits the efficacy of markets and gives rise to speculative excess, limits the efficacy of coordinated intervention by government, giving rise to either regulatory excess or capture. The combination of actors' self-interest, overconfidence, and cognitive limitations thus leads to inevitable failures in liberalism and regulation. Neither unfettered markets nor markets guided by benevolent planners offer a clear path to salvation. A progressive ongoing struggle by private, public, and civil society actors to harness markets, but limit efforts to abuse power within them is the best we can hope to achieve.

It may be inevitable for the cycle of excess confidence in liberalism and regulation to repeat itself anew with either a last gasp of neoliberalism or a period of regulatory excess ahead. Here, however, I have sought to highlight the potential for the development of more sociologically, psychologically, and politically aware business research and pedagogy as part of a progressive reform of neoliberalism. We need to replace the view and role of the economist as savior, either in the design of autonomous markets or in the design of government intervention into those markets, with that of the humble pragmatic social scientist as student of the process of collective decision making in the presence of uncertainty. We need to highlight the importance to economic liberalism and the development it can generate of treating markets as embedded in psychological, sociological, and politi-

cal systems that enable and constrain their ability to generate or destroy value in the long term.

Such a paradigm does not, as some critics seek, eschew characterizing individuals as self-interest seeking. It acknowledges and prominently features this base and clearly evident motivator of human behavior. It does, however, seek to enrich our depiction of other aspects of human nature that economic liberalism and neoliberalism discounted or failed to appreciate. These "animal spirits" were long understood by philosophers, poets, and other scholars of human nature, but, in recent years, were sidelined much to the detriment of the sustainability of the neoliberal order. It's time to discard simple *Homo economicus* and to develop a theoretical and pedagogical paradigm that can better explain the past 2 centuries of economic policy making. Such a paradigm features bursts of euphoria and progress, periods of hubris and depths of despair, before a turn to a new savior begins the process anew. It acknowledges that individuals are guided by complex combinations of cold rationality and "animal spirits." The alternative presented by *Homo therian* draws upon both a human body and animal head in its individual and collective quest to generate value through progressive reform that embeds self-interested individuals in dynamic and uncertain contexts.

We must extend, deepen, and integrate our use of psychology to explain team behavior and leadership; sociology to explain large-group dynamics and patterns of diffusion; political science, anthropology, and sociology to explain the policy environment in which business operates; and economics to explain selection processes and constraints. By virtue of the complexity and scope of our field of inquiry, business scholarship has historically been at the forefront of interdisciplinarity. Perhaps it is too harsh to criticize the profession for not seizing this opportunity sooner, but a lost opportunity akin to the 1930s looms. Unlike earlier periods of internal reform, external allies and resources can readily be identified to support and promote internal change. I close with an explicit call for action. I ask the Aspen Institute to convene a multistakeholder conference on "Fulfilling the Promise of Progressive Management." They should invite leading critics of management research and pedagogy, deans, Nobel prize-winners in economics who espouse broader interdisciplinary perspectives and methodological approaches, prominent business executives, and representatives from civil society. Together these stakeholders could chart out recommendations for curricular change, research priorities, and pedagogy along with the text of an MBA Oath and faculty conflict-

of-interest guidelines to which all stakeholders would subscribe and pledge to contribute on an ongoing basis. Such an effort is in each stakeholder's self-interest as well as in the public interest at a time of uncertainty regarding the next dominant paradigm of economic policy making.

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Witold J. Henisz is the Deloitte & Touche Associate Professor of Management in Honor of Russell E. Palmer, former managing director at the University of Pennsylvania. He received his PhD from the University of California, Berkeley. His research examines the intersection of political hazards and international investment strategy.