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Rakesh Khurana: From Higher Aims to Hired Hands

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INTRODUCTION

Business Education and the Social Transformation of American Management

Modern management has long been one of the most powerful but invisible of American institutions—invisible not in the sense of being out of the public eye but in the sense that its control of many of society's most powerful organizations has become so taken for granted, and its influence so pervasive, that it has evaded searching scrutiny.

This idea might seem counterintuitive today, when in less than a decade we have gone from the era of the charismatic, superstar CEO of the likes of Lee Iacocca and Jack Welch to a historical moment that has seen not just the deflation of erstwhile icons such as Carly Fiorina and “Chainsaw” Al Dunlap but the conviction and imprisonment of others, such as Jeffrey Skilling and Bernie Ebbers, who turned out to have used their celebrated business acumen to enrich themselves while defrauding investors. Yet the dramatic contrast between the CEO as superhero and the CEO as antihero has obscured the underlying links between these two types, which have appeared on the scene only in the last twenty-five years or so. Moreover, not even the profusion of corporate scandals since the beginning of the current decade has prompted the question why it is that managers run corporations.

As the late Alfred Chandler has detailed in a series of famous studies, modern industrial capitalism in the United States was rooted not so much in the rough-and-tumble world of the robber barons (the original incarnation of the charismatic business leader) as in a more complex, depersonalized environment in which technological advances made possible both previously unimaginable economies of scale and the creation of a national market. Realizing the economic advantages of these new technologies, Chandler argued, rested on the efforts of a new type of individual working in the upper and middle ranks of large organizations, a figure who did not fit into conventional economic distinctions between capital and labor. Neither owner nor worker, this new economic actor, the manager, performed work that, while not as visible and

tangible as the factories built by financial capital or the tasks performed by those who labored in them, was nonetheless critical to the development of the large-scale business enterprise. Managers' work involved administrative tasks such as directing personnel, defining procedures for selling their firm's goods, and organizing processes for distributing those goods across the nation. In the process of carrying out these duties, managers gradually, but decisively, appropriated the authority of the entrepreneurs who had started businesses, and then that of the shareholders who owned their stock. In contrast to much microeconomic theorizing, Chandler noted, management was not subordinate to the authority of Adam Smith's *invisible hand*. Rather, this group constituted a *visible hand* operating in a new system of managerial capitalism, one in which the discipline of the market was attenuated and the scope for managerial choice considerable. Nevertheless, as the post-World War II American economy delivered twenty-five years of prosperity, widespread economic advancement, labor peace, and overall contentment with the American economic system, the managers who led and administered American corporations attracted little public notice outside of their local communities, making up what C. Wright Mills recognized as a critical order-bestowing group, an essential but invisible structure of postwar American society.¹

It was the economic crisis of the 1970s that began to bring management out from backstage and into the limelight. Lower rates of profit and concerns about U.S. economic competitiveness catalyzed a wave of deregulation intended to improve productivity and profitability. Rarely, if ever, in American history had there been such a wholesale reinterpretation of economic history as that which occurred during the subsequent decades of the 1980s and 1990s.² As the narrative was revised, managerial capitalism was portrayed no longer as the key to America's economic success but, rather, as a liability.³ A popular theme was that American executives were unwilling or unable to make the difficult choices necessary to revitalize their corporations. The prevalent systems of economic and psychological motivation within the corporation were seen as no longer providing sufficient incentives for managers to act in the corporation's best interests. Rather, mechanisms that lay at the heart of bureaucratic administration were seen as distorting corporate goals and diverting managerial attention and effort from the most productive uses of capital. In such a context, it was argued, only the restoration of Adam Smith's *invisible hand*, through the creation of a market for corporate control, could ensure profit maximization and economic efficiency.⁴ Corporate takeovers came to be seen as a means of restoring power to the group now

believed to be the only one with a legitimate claim to the value created by corporations—shareholders. Conventional corporate executives, especially in the largest public companies, were portrayed by many economists and policy advocates as unwilling to set aside their own personal interests and align their efforts with the goal of maximizing shareholder value. The result was a wholesale transformation in the relations between executives of large, publicly traded companies and shareholders and the appearance of a new type of chief executive, along with the development of a new kind of corporate model in which the interests of corporate executives and shareholders were to be closely linked. The full economic and societal implications of this new model, sometimes described as investor capitalism, are only just beginning to be understood. Yet even as the image of the ideal executive was transformed from one of a steady, reliable caretaker of the corporation and its many constituencies to that of the swashbuckling, iconoclastic champion of “shareholder value” (and is now probably in the process of being transformed once again, in ways it does not yet seem possible to predict), a larger story has remained untold and largely uncomprehended.

This larger story stretches back beyond the transition from the era of the bland, more or less anonymous corporate statesman of the postwar world to that of the star CEO of the more recent past. Long before they became the nameless, inoffensive, taken-for-granted corporate functionaries of postwar managerial capitalism, managers were controversial or, at the very least, members of a new and unfamiliar economic and social group whose role required explanation. Lacking legitimate authority, managers needed to prove their social worth and legitimate their authority, not only to others, but to themselves. When salaried managers first appeared in the large corporations of the late nineteenth century, then began to proliferate, it was not obvious who they were, what they did, or why they should be entrusted with the task of running corporations. It was only after a sustained quest for social and moral legitimacy—finally achieved through the linkage of management and managerial authority to existing institutions viewed as dedicated to the common good—that management successfully defined its image as a trustworthy steward of the economic resources represented by the large, publicly held corporation. Once management had successfully pursued its claims to legitimacy and control over corporations, the awareness that this was neither inevitable nor inherent in the nature of things began to vanish—although it has flickered at the edges of America’s collective consciousness at moments of crisis such as the Depression (when business leaders were implicated by

many in the stock market crash), the economic crisis of the 1970s (when shareholders began to rise up against managers held responsible for inadequate corporate performance), and, most recently, the spate of business scandals of the early years of the twenty-first century.

One of the key factors in management's successful effort to establish its claims to the legitimacy and authority it enjoys to this day was another institution—once new and obscure, now familiar and powerful—whose sources of legitimacy and authority have become largely invisible: the university-based business school. When they first emerged, business schools were highly controversial institutions. The profit-maximizing imperatives of business were seen to be at odds with the more disinterested mission of universities. Business education came to be an accepted and uncontroversial part of the university only through the efforts of a vanguard of institutional entrepreneurs, both academics and managers, who saw the need for creating a managerial class that would run America's large corporations in a way that served the broader interests of society rather than the narrowly defined ones of capital or labor.

Like contemporary executives, business schools today are not exactly out of the public eye. The MBA has become the second-most popular graduate degree in America and a virtual requirement for entry into the upper echelons of management in large, established corporations, as well as into such lucrative occupations as consulting, investment banking, and private equity.⁵ As a result, publications including *BusinessWeek* and the *Wall Street Journal* regularly trumpet their rankings of the top business schools in the country. Business magazines and the business pages of major newspapers advertise the panoply of full-time MBAs, part-time MBAs, and executive education programs offered by leading business schools. Nor has it gone unnoticed during the recent corporate scandals that corporate felons such as Skilling and Andrew Fastow have degrees from some of America's most prestigious business schools at some of the country's leading universities.⁶

Yet just as the rationale for managerial authority in corporations has sunk from sight, so that it is now barely possible to examine and reevaluate it even amid mounting discontent with managerial behavior among shareholders, employees, regulators, and citizens, so too the rationale for enlisting the resources and reputations of American universities in the education of corporate managers, financiers, and the like has become obscure with the passage of time and the consolidation of the power and influence of business schools. In 1926, C. P. Biddle, an assistant dean at Harvard Business School,

provided one framing of what was, at the time, the highly contested question of whether and why business schools belonged in universities:

The basic consideration of what constitutes graduate work in business administration seems to me to lie in the purpose of the graduate training. If its purpose is to train “hands,” or technicians, or merely successful money-makers, in my judgment the course has no place in a graduate department of a university. On the other hand if its purpose is to train “heads” or future leaders in business, it has no difficulty in justifying its existence or place.⁷

Although, as I hope to show in the course of this book, the choice for business schools that Biddle presented nearly a century ago has yet to be decisively made, a number of factors suggest that all is not well within the institution of the university-based business school: recent events and trends in the corporate world; a mounting chorus of criticism directed at business schools from within their own ranks; and the implicit challenge represented by the rise of for-profit, online, and other alternatives to the traditional MBA. Biddle’s implicit question is as relevant today as it ever was. For business schools and for management itself, the times seem ripe for reopening the question of what exactly this institution is for, what functions we as a society want it to perform, and how well it is performing them.

The rationale for placing the institutions of management and business schools side by side is not just that business schools shape the identity, outlook, assumptions, and aspirations of individuals who go on to become influential actors within powerful economic institutions. At a more fundamental level, the relationship between management and business schools is about how they have shaped each other *as* institutions and influenced other ones, in the sense in which sociology uses the term *institutions*.⁸ That is, institutions are the complex and interacting systems of norms, structures, and cultural understandings that shape individual and organizational behavior. The two institutions of management and business education, for example, have reciprocally defined the ultimate ends of the corporation and shaped the means through which management seeks to achieve them. They have given rise to the contemporary understanding that the purpose of management is to maximize shareholder value, thereby legitimating practices such as the liberal granting of stock options and a focus on share price as the measure of managerial and organizational achievement. Grasping the nature of business education is therefore essential for our understanding of the function of management in the

American economy and American society today, and of how the institution of management can be not only critically evaluated but also, if deemed necessary, reshaped to make for a better fit with overall social aspirations.

To understand the nature of business education, and how it has shaped and been shaped by the larger business context, we need to go back to its beginnings. For the institutional entrepreneurs who invented the university business school—both those who came to the project from the business side and those who came to it from the academy—the primary purpose of this new institution was to legitimate and institutionalize the new occupation of management. To achieve this purpose, these institutional entrepreneurs framed management as an emerging profession, much like medicine and law. Using this frame, they successfully mobilized societal support, financial resources, and personnel for the development of this innovative educational enterprise, the university-based business school. To be sure, the incorporation of management education into the American university was part of a larger historical and social process in which the American research university—itsself a relatively young institution at the end of the nineteenth century and the beginning of the twentieth—gained support and legitimacy by extending its mission beyond that of the religious liberal arts colleges of the seventeenth, eighteenth, and early nineteenth centuries to include preparation for the many practical occupations demanding increasingly sophisticated training amid the scientific and technological advances transforming the country in the late nineteenth century. Today, just over 125 years after the invention of the university-based business school, the relationship between the university and the business school has been largely reversed. Having undertaken, in a previous incarnation, to confer on management the academic charisma it sought in order to become respectable, the thoroughly rationalized, bureaucratized, disenchanted (in the Weberian sense) university of today, as some have said, looks to management for guidance on how to be respected.⁹

Yet if the university has been significantly transformed by its relationship with the institution of management, management has arguably been transformed just as decisively by its relationship with the university via the university-based business school.¹⁰ It is now hardly a secret that, for example, the related scandals of outsized executive pay and options backdating have grown out of a belief that the way to motivate managers to act in the best interests of shareholders is to design a compensation structure that provides them with an incentive to increase the share price. Less well understood, perhaps, is the role that economic theories developed and disseminated within

business schools have played in advancing this belief, or the extent to which such theories upended what had hitherto been the dominant paradigm within business schools of the nature and purpose of management. Still less fully grasped is how both what had been the reigning paradigm in university business education, and the challenge to this logic represented by doctrines such as shareholder primacy and the need to “incent” managers to maximize benefits for shareholders, were grounded in the fundamental relationship of management as a subject of study to the intellectual, pedagogical, and social traditions and practices of the university, and in the changing relationship of the university to the larger society.

To telescope the argument I make in the pages that follow: university business schools were originally created to be “professional schools” not in the loose sense in which we now use the term to refer to graduate schools in any area outside the arts and sciences, but in another, more complex sense reflecting a very specific, historically grounded understanding of what constitutes a “profession.” This notion comprised, among other things, a social compact between occupations deemed “professions” and society at large, as well as a certain set of relations among professional schools, the occupational groups for which they serve as authoritative communities, and society. Business schools were thus intended not just to prepare students for careers in management but also to serve as the major vehicles of an effort to transform management from an incipient occupation in search of legitimacy to a bona fide profession in the sense in which the creators of the university business school understood that term. The history of the university-based business school is thus framed in these pages as a professionalization project undertaken, transformed, and finally abandoned over a period stretching from the founding of the Wharton School at the University of Pennsylvania in 1881 up to the present.

In the course of this history, the logic of professionalism that underlay the university-based business school in its formative phase was replaced first by a managerialist logic that emphasized professional knowledge rather than professional ideals, and ultimately by a market logic that, taken to its conclusion, subverts the logic of professionalism altogether. From this historical perspective, business schools have evolved over the century and a quarter of their existence into their own intellectual and institutional antithesis, in a process of development that is, as yet, little understood and generating consequences that we are only now beginning to comprehend and reckon with.

To illuminate this process of development, its consequences, and the significance of both for how we think about the role and purpose of business

education today, I must first describe my approach to two subjects of fundamental relevance: (1) the concept of professionalism in sociology; and (2) the significance of how institutions arise and develop for our understanding of their nature and function in the present.

Professionalism

Professionalism and professions are powerful ideas and institutions. Sociologists and economists have recognized professions as an important subset of the labor market and professionals as a vital subset of the workforce. Professions are laden not only with economic implications but also with cultural meaning.¹¹ They often occupy the highest-status positions in an occupational hierarchy. In cultural terms, they are carriers of important societal norms and values concerning such matters as the relationship between knowledge and power and the maintenance of trust.

In sociology, the study of professions has a venerable lineage. Its earliest roots can be traced to European social thinkers including Tocqueville, Marx, Weber, and Durkheim. In American sociology, the early study of professions was closely linked to the functionalist perspective of Talcott Parsons and Robert Merton that defined the emergence of professions by how they fulfilled societal needs.¹² The functionalist approach was often taxonomic, identifying characteristics that distinguish a profession from an occupation and a professional from other members of the labor force.¹³ Researchers in this tradition often asked, “What are the differences between doctors and carpenters, lawyers and autoworkers, that make us speak of one as professional and deny the label to the other?”¹⁴ Functionalists like Harold L. Wilensky and William J. Goode focused their attention on structural attributes of professions, such as how professional work is organized and governed, and the types of training prerequisite to the practice of a particular occupation.¹⁵ Wilensky, for example, studied the stages of development undergone by eighteen different professions and devised a model for the evolution of an occupation into a profession. Some of the critical points he analyzed were the following: the development of a training school, which indicates that an aspiring profession’s work requires unique abilities and specialized preparation; the establishment of a professional association as a community of practitioners who share convictions and distinct practices; and a “self-conscious” definition of the core tasks that constitute the work of the profession.¹⁶

During the 1970s, a significant number of sociologists and economists expressed skepticism about the functionalist account of professions. These researchers argued that the functionalist perspective, particularly the focus on a profession's structures and distinguishing traits, uncritically assumed a tight coupling between a profession's formal structures and claims, on the one hand, and its actual activities, on the other. They moved away from an occupation-based view of professions to a class-based one. In particular, these critics maintained that the functionalist account obscured what they took to be the one true goal of professions, the creation of monopolies. If professions and professionals had anything in common, these scholars argued, it was the way in which they insulated themselves from market forces. Instead of offering a different research approach to understanding professions, the class-based critics simply reinterpreted many of the attributes of professions identified by the functionalists. Phenomena such as university training, professional associations, and licensing, for example, came to be seen as means of gaining and maintaining monopoly power.¹⁷ Sociologists, represented by Magali Larson, Randall Collins, and others influenced by critical theory, emphasized the social closure and credentialism dimensions of professional status and its contribution to economic stratification.¹⁸ The neoclassical economists who came to be known as the Chicago school portrayed professionals as monopolists fundamentally interested in restraining trade and maximizing profit by limiting the freedom of consumers to hire whomever they wanted to do a certain type of work or perform a particular service.

While both the economic and sociological critiques of professions emphasized their monopolistic aspects, sociologists focused their attacks not just on the structural features of the professions that tended toward monopoly but also on their cognitive and normative claims. The focus on the cognitive claims of professions is elaborated in Andrew Abbott's cultural and process account, *The System of Professions*. The key to understanding a profession, Abbott argues in his landmark book, lies not in its structural attributes or the explanations it gives to the public as to why those structures are important, but, rather, in the dynamics of its claims to knowledge and professional prerogatives in the arenas within which a profession claims expertise and seeks to exercise control. Of particular interest, Abbott argues, are boundary disputes between professions over which problems fall into their domains, what knowledge is relevant to their solution, and which occupational tasks fall to which groups: for example, the struggle between conventional medicine and osteopathy, or engineers and technicians, or, in my field,

management researchers and management consultants. As Abbott notes, any occupation wishing to achieve professional autonomy and exercise professional authority must find a defensible knowledge basis for its jurisdictional claims. It is in the process of achieving exclusive jurisdiction over a particular class of problems or tasks and then continually defending (or expanding) this territory that a profession emerges. That a profession can claim control over a particular set of problems at one point in history is no guarantee that another profession will not dispute such control later on, and if the latter can establish its own knowledge claims, jurisdictional boundaries between professions can shift.¹⁹

Even before Abbott's work undermined the notion that a profession's cognitive claims can be grounded on any absolute claim of expert knowledge, Magali Larson took aim at the normative claims of professions in her book *The Rise of Professionalism*. In Larson's view—quite characteristic of the debunking spirit of much American social science in the 1970s—professional claims over a particular knowledge base are used for achieving professional status, then deftly manipulated to allow a profession to define the standards by which its competence is judged.²⁰ Meanwhile, professional norms prescribing orientation toward service (e.g., the Hippocratic oath) are seen as ideological facades masking the fundamentally self-interested motives of professions.²¹

The focus on knowledge and normative claims and their uses in claiming professional prerogatives—a focus that characterizes Abbott's and Larson's important work—is the starting point for my own inquiry into business education. The goal of the professionalization project in American management, carried out by the university-based business school, was to achieve control in a specific area—the large, publicly traded corporation—and protect that control from competing groups, namely, shareholders, labor, and the state.

Managers' challenge to the claims of shareholders, workers, or the state for various decision rights with respect to the corporation was made in the face of powerful ideological headwinds: for example, the idea that property rights should determine prerogative in the control of the business firm. This challenge was also set forth at a time when the large business corporation itself was seen (correctly) as a historically unprecedented institution, uniquely powerful and troubling in its capacity for overturning existing economic, social, and political institutions, and therefore in need of the most enlightened administration possible. Thus it was useful, and perhaps essential, for managers to attach to their claims of cognitive exclusiveness a strongly normative component. This they did by allying themselves with existing institutions—not just

the professions but also the closely related institutions of science and the university—whose own cognitive claims were closely interwoven with normative values that were portrayed as aligned with broader social aspirations and the public's interest.

My research approach takes very seriously Larson's ideas about how professional structures and ideologies can obscure underlying interests, but it also reconceptualizes certain elements of the functional perspective on professions, viewing the structural and normative traits exhibited by professions as important markers in a professionalization project. While I agree with critics like Larson and Freidson when they argue that such traits do not help explain the development of professions, and can serve to enhance their monopoly status, these traits do point us toward a set of well-established cultural markers—for example, university training for professionals, codes of ethics—that are often used by external agents to evaluate the state of an occupation and its professional claims. These external agents, moreover, have bargaining power in negotiations with groups seeking recognition as professions, and it is fallacious to assume that they are simply duped by bids for monopoly status dressed up as expert knowledge or professional norms and values, as class-based critics suggest.

To clarify my own assumptions here, I take it that ideational interests can be important factors in a professionalization project, and that statements of them must sometimes be taken at face value to illuminate the dimension of shared meaning that, along with social roles and private (material or power) interests, constitutes the raw material from which professions are created. When we are ill, for example, we often defer to physicians' judgments about diagnosis and treatment mostly out of a presumption that they are acting in accord with the standards of practice articulated by the professional medical community. Moreover, I share the viewpoint of Everett C. Hughes, a scholar of the modern occupational structure, who described the status of professions in American society as the result of a type of social contract: professions are given extraordinary privilege in exchange for their contributions to the enhancement of social order.²² (Similar ideas about professions holding a socially negotiated occupational status that mediates between the imperatives of the market and the needs of society can be found in the writings of Talcott Parsons, Robert K. Merton, and most recently Eliot Freidson, who has reconsidered his earlier class-based critique of professions.)²³ Again, the external agents involved in evaluating and passing judgment on claims to professional autonomy and authority have bargaining power that they are capable of using

to reinforce social values as well as to ensure the competent performance of particular kinds of work. Finally, I take it that institutions like professions—or business schools—are not just efficient solutions to problems or vehicles for the advancement of interests but also order-creating institutions. This last assumption requires particular elaboration, for it informs the approach I take in this book to the study of the university-based business school as an institution.

■ Institutionalization and the Creation of Social Order

The study of institutions has occupied social scientists from the inception of the social sciences themselves, although its theoretical underpinnings have undergone significant development in recent decades. From the 1920s until about the 1960s, the dominant approach was functionalism, which sought to understand institutions by describing the interrelated roles they played in enabling the smooth functioning of society.²⁴ The functionalist approach, which was often comparative, focused on the structural features of institutions as well as the norms and socialization processes that enabled individuals to carry out prescribed institutional roles. In functionalist theory, institutions are seen as efficient solutions to particular social problems, solutions that emerge through a competitive process and enable particular tasks. Although the focus on efficiency in functionalist theory exhibits a certain economic bias, the assumption that an institution's survival is evidence of its efficiency, or that the causes of certain social arrangements can be explained by the consequences of those arrangements, is also characteristic of the functionalist approach to institutions in sociology.

As the heyday of functionalist theory passed in the 1960s, scholars engaged in the study of institutions in fields such as organizational theory began to focus on the increasingly evident limitations of functionalism and the competitive selection model of institutional behavior that underlay it. They pointed to such frequently observed phenomena as the unintended consequences of organizational designs, the decoupling of organizational practices from stated goals, and the tendency of organizations to resemble one another despite the diversity of their origins and stated goals, raising questions about whether institutions really pursue rational objectives or are more driven by normative conventions.²⁵

Scholars constituting the theoretical school known as the “new institutionalism” have built upon earlier work in the study of institutions that

originated principally in the fields of economics and political science (and that, in sociology, is partly rooted in the study of the professions). In sociology, the principal ideas behind the new institutionalism have been developed by Paul DiMaggio, John Meyer, Walter Powell, Richard Scott, and Philip Selznick.²⁶ Scott, in his review of the field, provides the most complete and succinct definition of an institution as these scholars use the term. “Institutions,” Scott writes, “consist of cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior.”²⁷ Most institutional analysis focuses on four facets of institutions: institutional actors, institutional fields, institutional logics, and legitimacy.

Institutional actors consist of both individual entrepreneurs and groups of social actors. Those institutional actors that regularly interact to “constitute a recognized area of institutional life, such as key suppliers, resource and product consumers, regulatory agencies and other organizations that produce similar services or products,” make up an *institutional field*. In the automotive industry, for example, a field consists of not only the automobile manufacturers, but their customers, suppliers, regulators, and unions that define the rules and standards within which they operate. Institutional actors exert influence primarily in two ways. First, they are active agents capable of exercising power, mobilizing resources, and altering rules so as to affect the behavior of other agents. Second, they are reproducers of institutions: the ways in which existing institutions look and behave, and the values they espouse, shape new entrants’ understandings as to how they themselves ought to look and act.

The third aspect of institutions that researchers emphasize is *institutional logic*. Roger Friedland and Robert R. Alford define an institutional logic as the set of “organizing principles” that provide “not only the ends” to which behavior is oriented but the “means by which those ends are achieved.”²⁸ They constitute the “underlying assumptions, deeply held, often unexamined, which form a framework within which reasoning takes place.”²⁹ Institutional logics construct and inform a perceptual frame in which those who inhabit an institution locate themselves and gain their understanding of the world.³⁰ A society’s traditions affect institutional logics. Changing historical conditions may mean that principles and policies developed under one societal consensus can no longer be seen as valid under another.³¹ Focusing on an era’s prevailing institutional logics helps researchers understand the belief system and taken-for-granted assumptions in a particular era and how they have evolved.

The fourth element emphasized by the new institutionalism is *legitimacy*. Parsons described legitimacy as the “appraisal of action in terms of shared or common values in the context of the involvement of the action in the social system.”³² Jeffrey Pfeffer and John Dowling define legitimacy as a situation of “congruence between the social values associated with or implied by [an organization’s] activities and the norms of acceptable behavior in the larger social system.”³³ Powell and DiMaggio similarly describe legitimacy as the social standing granted to an institution by virtue of its conformity to widespread social norms, values, and expectations.³⁴ A legitimate corporate board, for example, is one that is perceived as having members attend legally required meetings, but also as behaving so as to represent the company’s long-term interests. Given this normative dimension, efficiency and performance are not sufficient to establish societal legitimacy.

Legitimacy is the currency of institutions. For an aspiring institution, acquiring the halo of legitimacy is a difficult achievement often requiring effort and commitment and the steady observance of exacting standards over an extended period of time. But, like trust, legitimacy can vanish very quickly and, once lost, is difficult to regain. When an institution loses legitimacy, external observers call even everyday activities into question, and perfectly sincere actions may be interpreted as disingenuous or masking a hidden agenda. For organizations in general, legitimacy is an important aspect of the social fitness that enables them to secure advantages in economic and political markets and improve their chances of survival. Because legitimacy justifies an institution’s role and helps attract resources and the continued support of constituents, it is both a goal and a resource, and institutions like professions may compete with one another to establish their claims to legitimacy.³⁵ The process in which new institutions strive to conform to generally accepted beliefs and rules in order to gain legitimacy gives rise, in turn, to the phenomenon of *isomorphism*, the tendency toward increased homogeneity within organizational fields.³⁶

Institutional theory and its concepts have contributed significantly to sociological understanding of the relationship between existing organizations and their environment. Much less is known about the origins and development of new institutions, institutional logics, forms, and behaviors. Researchers have paid relatively little attention to the question: where do new institutions come from? In recent years, one of the field’s most eminent scholars, Paul DiMaggio, has suggested that to answer this question, it is essential to examine an institution’s birth—its emergence out of an interaction

with the larger society and culture, the evolution of its internal dynamics, and the interface between the two. We must learn from what strata of society the institution's entrepreneurs and subsequent leadership have been drawn, with what existing institutions it has had to legitimate itself, the competing institutions and groups it had to contend with, and how it had to justify its existence and actions ideologically in the social and political environment in which it arose.³⁷ The key here is to show organizations responding to particular problems posed by history.

The reasons why institutions emerge are complex, but one explanation lies in the basic human desire to reduce uncertainty and increase order. Anthropologists and sociologists have observed that a fundamental characteristic of humanity is the propensity to impose order and meaning on its surroundings and interactions. While some institutions achieve this end in merely an instrumental or utilitarian sense, others serve to create and impose more complex forms of order and meaning. As the philosopher Eric Voeglin has observed, "The order of history emerges from the history of order. Every society is burdened with the task, under its concrete conditions, of creating an order that will endow the fact of its existence with meaning in terms of ends divine and human."³⁸ Alfred Schutz starkly frames the role of institutions such as the family, community, and religion as barriers against the alienation and anomie of life without meaning or purpose. The view that even economic institutions need to be understood with reference to religious or other noneconomic phenomena can be traced to *The Protestant Ethic and the Spirit of Capitalism*, where Weber showed that one could not adequately understand the development of economic relations apart from the most fundamental norms and beliefs that govern the lives of individuals in society. That we are still not used to thinking of a seemingly instrumental institution like the university-based business school in this way is a testament to the power of the institutionalization process to erase our awareness of origins and relegate questions of meaning and purpose to the margins of our attention.

The Business School as an Institution

As I hope to show in these pages, the development of the university-based business school over the approximately 125 years from its invention in the late nineteenth century, to its institutionalization in the post–World War II era, to its taken-for-granted yet not unchallenged status today exhibits many

features better explained by institutional theory than by assertions of purposiveness and efficiency. For example, as I have already suggested, the history of American business schools from their beginnings to the present reveals a decoupling, over many decades, of business school practices from a mission that originally centered on the professionalization of business management, and that is still generally said to entail social purpose. I argue that the final, most decisive phase of this decoupling of practice from stated purpose can be traced to the unintended consequences of the large-scale reform of American business education undertaken in the post–World War II period and described in part 2.

Moreover, as I show in parts 2 and 3 of the book, the divergence of the American business school after World War II from the course set for it by its founders and early proponents came about through its susceptibility to influence from external actors (e.g., foundations, the press, the corporate sector) in the institutional field. As revealed in the founding period that I examine in part 1, the adoption of professionalism as an institutional logic calls attention to the importance of norms and values (as opposed to purely instrumental goals such as training individuals to perform particular functions in corporations) in the formation of the institution of the university-based business school. For as I argue in this first part of the book, the professionalization project undertaken by the founders of university business education depended to a critical degree on the ability of business schools (to borrow Philip Selznick's definition of the institutionalization process) to infuse the new occupation of management with values beyond the technical requirements of the job.³⁹

Beyond these particular considerations, the founding and development of the university-based business school presents an especially fascinating study in the process of institutionalization because the institutional entrepreneurs who invented and launched it were highly conscious of the nature of their efforts. These individuals—many, but not all, of whom came from socially elite backgrounds—were self-consciously aware that the creation of institutions was a critically important task for the maintenance of social order. Through the establishment of this new institution, they sought a solution to what presented itself as one of the major social questions of their times: by what means, and for whose benefit, should large corporations be run? In choosing the professionalization of management as the path to the institutionalization of the university business school, these institutional entrepreneurs, as we shall see, sought to yoke their enterprise to those of other

institution builders in late nineteenth- and early twentieth-century America whose efforts were part of what the historian Robert H. Wiebe called the “search for order” in this period.

The importance of the institutional context of the rise of the university-based business school is further emphasized by one of the unique features of this enterprise as a professionalization project. Professions, as we have seen, are in one of their dimensions occupational groups that claim jurisdiction over particular arenas of work. In order to successfully claim such jurisdiction, a profession must, as Andrew Abbott puts it, ask “society to recognize its cognitive structure through exclusive rights.”⁴⁰ Other scholars who have studied the professions argue that societal recognition of such claims is usually achieved through the legal system and/or in the realm of public opinion.⁴¹ Law and medicine are professions that rely on both the legal system (i.e., state licensing boards) and their standing with the public for their ability to monopolize particular types of work. Journalism and social work are examples of professions that are more dependent on public opinion alone. In this context, “professional management” is unique in that it has relied on neither legal authority for, nor public endorsement of, its claims of jurisdiction over managerial tasks in large publicly held corporations, investment banks, and so forth. Instead, its jurisdictional authority has been achieved through an interdependent relationship between university-based business schools—which derived their own legitimacy from institutions including the established, “high” professions and the university itself—and the corporate workplace. Viewed from this perspective, business schools cannot be regarded as stand-alone objects. Rather, they must be seen as part of a pattern of collective behavior, linked to other institutional sectors in society through the interaction of individuals within them with other actors and systems in society—hence the importance of an institutional field perspective.

Although institutional theory recognizes the importance of such links and interactions, it has not always paid enough attention to the emergence and development of institutions in their historical contexts as well as in their organizational and institutional fields.⁴² Yet origins are crucial for our understanding of institutions. New institutions are often proposed and created in periods of instability and conflict, while these institutions themselves represent efforts on the part of individuals and groups to stabilize a situation in a way that aligns with their interests and values. Thus new institutions are both a source of social contention and a mechanism for resolving social conflicts.⁴³ They are means through which a society adjusts to new conditions.

To understand this crucial aspect of an institution, then, requires a deep familiarity with the social context of the period of its founding and development, and with the debates in which a set of institutional entrepreneurs were engaged, as well as an understanding of why it is that particular stances gained acceptance from resource providers.

Hence the method of this book, which, though chronological in structure, is not a history of business schools but, rather, uses historical data to develop an argument about the development of an institution. As the book's subtitle suggests, my use of sociological concepts and historical data to understand the origin of business education is directly inspired by Paul Starr's definitive account of the origins and development of American medicine, *The Social Transformation of American Medicine*. While this study does not approach the scope and breadth of Starr's analysis, my orientation and goal are the same: to use the historical record—as found in primary and secondary sources—as the raw material from which a more complete institutional understanding can be fashioned. As in Starr's work, this sociological approach toward history is particular and interpretative. It deals in depth with specific, concrete events and then tries to understand the meanings that different social actors attached to these events. As I observe in the "Bibliographic and Methods Note," it is from a detailed examination of particular historical circumstances and meanings, in turn, that sociology develops and refines its perspectives and general concepts. Such concepts then allow us to formulate explanations as to the cause of recurrent human phenomena, such as war or revolution, or the typical developmental process of important institutions, like government or business. The origins and development of university business education, which form my subject here, are inextricably intermixed with the messy stuff of history, including competing groups with their material and ideational interests, as well as time-bound cultural conceptions. I have attempted to understand these phenomena not for their purely historical interest but in order to shed light on a set of contemporary institutions that have powerful claims on our attention today.

■ Plan of the Book

I have divided this study into three parts to emphasize three distinct movements in the development of American business education: the professionalization project that led to the emergence and diffusion of business schools; the

institutionalization of business schools that took place during an era of reform and standardization; and the shift of business schools away from an orientation toward professionalization. These three movements fall roughly into three time periods. The professionalization project stood at the center of business schools' agenda during the period from 1881 until America's entry into World War II in 1941, an age in which business schools emerged and diffused throughout America's colleges and universities. The period of reform and subsequent institutionalization took place from about 1941 to the economic recession of the early 1970s. Part 3 of the book takes us from the 1970s to the present day, a time in which the imperatives of professionalism in business education were replaced by market imperatives.

Chapters 1 and 2 provide some historical and contextual perspective for the emergence of business schools and the idea of management as a profession. It is no accident that the rise of university-based business education coincided with the astonishing economic and social transformations effected by the rise of large-scale industrialism and corporate capitalism in the last three decades of the nineteenth century, and with Progressives' "search for order" in the wake of these upheavals.⁴⁴ The attempt to establish business as a subject of professional education was, in fact, a quintessential Progressive era phenomenon, for the Progressive response to the disorder unleashed by industrial capitalism manifested itself not just in politics and law, but in attempts to bring a wide range of social phenomena, including management, under the broader power of science, rationality, and expertise.

Chapter 3 shows that business education arose not from centralized organizations, like the government or large corporations, but from an entrepreneurial vanguard of academics and forward-thinking managers. These individuals sought to associate management with elite education partly for status reasons, but also out of an idealistic belief that a certain kind of education—professional education that emphasized the importance of service and calling—could ensure that large corporations were run in the best interests of society.

Chapter 4 describes the challenges of constructing management as a profession. I examine, among other phenomena, the formation and early development of the American Association of Colleges and Schools of Business (AACSB) and its struggles to professionalize managerial education through efforts led by educators rather than practitioners.

Chapters 5 and 6 take us from World War II to the early 1970s, when various important actors outside universities attempted to improve on the

prewar work of the AACSB. I look, in particular, at the Ford and Carnegie foundations, which issued critical reports on the academic limitations of business schools and provided generous funding to make them more intellectually competitive with standard academic departments. They succeeded, but at the price of distancing business schools from frontline practices in the world of business.

Chapter 7 begins with the economic crisis of the 1970s. It highlights the shift in business school logic away from the managerialist orientation inspired by the foundations, with its focus on abstract expertise, and toward an outlook dominated by the discipline of economics and the logic of the market. I attempt to show how this move undermined the ideals of professionalism that had long guided business schools.

Chapter 8 considers the business school in the contemporary marketplace. In so doing, the chapter returns to the enduring problem of defining the purpose of business education, now made especially difficult by the diverse and sometimes conflicting views, interests, goals, and educational challenges presently characteristic not only of business schools, but of universities.

In my epilogue, I do not offer any simple solutions for the challenges that business schools face—there are no silver bullets. I do suggest, however, that as business schools attempt to rebalance their relationships with students, faculty, business, and society at large, the ideals of professionalism and professional leadership should serve as a guide, as they so often have in the past.