Turning the Tables on Bad Management Theories and Good Management Practices

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Abstract

The starting point for this paper is the article by Sumantra Ghoshal published in 2005 in Academy of Management Learning & Education that argues that academic research related to the conduct of business and management has had some very significant and negative influences on the practice of management. Ghoshal's question; "Why don't we actually acknowledge in our theories that companies survive and prosper when they simultaneously pay attention to the interests of customers, employees, shareholders and perhaps even the communities in which they operate?" is used as a point of departure to argue that advancements in a stakeholder orientation in management practice have turned the tables on business schools and management theories. By emulating Ghoshal's method of "tracing the source of badness" in his explanation of how bad management theories were destroying good management practices, this paper turns the tables in an examination of Ghoshal's published work to "trace the source of goodness" in good management practices.

Turning the Tables on Bad Management Theories and Good Management Practices

In January 2020, fifteen years after its publication, the most cited article in Academy of Management Learning & Education is Sumantra Ghoshal's (2005) posthumously published article entitled "Bad Management Theories are Destroying Good Management Practices." In the article, Ghoshal argued that the practice of management had been significantly and negatively influenced by academic research related to the conduct of business and management. He emphasized how these influences were less about the adoption of a particular theory and more about the incorporation into the worldview of managers, a set of ideas and assumptions that had come to dominate much of management research.

Ghoshal was particularly critical of business school courses that were grounded in agency theory (Jensen & Meckling, 1976) that taught students that managers cannot be trusted to do their jobs – the job of maximizing shareholder value, and the "five forces" framework (Porter, 1979) that suggested that companies compete with not only their competitors but also with the suppliers, customers, employees and regulators. He further observed that;

> Even those who never attended a business school have learned to think in these ways because these theories have been in the air, legitimizing some actions and behaviors of managers, delegitimizing others, and generally shaping the intellectual and normative order within which all day-to-day decisions were made. (p. 75)

There were a number of questions posed by Ghoshal as he framed his arguments including; Why do we not fundamentally rethink the corporate governance issue? And, why do we so overwhelmingly adopt the agency model in our research on corporate governance? But the most simple and profound question he posed was; Why don't we actually acknowledge in our theories that companies survive and prosper when they simultaneously pay attention to the

interests of customers, employees, shareholders, and perhaps even the communities in which they operate? The assumptions in this last question, those regarding the way companies are successful, were at that time, not widely embraced by either business schools or in practice. As noted by Ghoshal, few managers question that "their job is to maximize shareholder value" (p. 79).

Turning the Tables

Now, fifteen years after its publication, Ghoshal's question can be framed in the emerging concept of stakeholder capitalism, which is a movement toward a stakeholder approach in management practice that is being driven largely by forces outside of business schools. This is a view that states the purpose of a company is to engage all its stakeholders in shared and sustained value creation by serving not only its shareholders, but all its stakeholders – employees, customers, suppliers, local communities and society at large. This view holds that performance must be measured not only on the return to shareholders, but also on how it achieves its environmental, social and good governance objectives. (Schwab, 2016).

A significant influence in advancing a stakeholder capitalism approach is the World Economic Forum (WEF), the not-for-profit organization headquartered in Geneva, Switzerland that engages political, business, cultural and other leaders of society to shape global, regional and industry agendas. WEF research portends a fundamental change in the way people live, work and relate to one another with physical, digital and biological worlds merging in ways that forces a rethinking of how countries develop, how organizations create value and even what it means to be human. This is what the World Economic Forum is calling the Fourth Industrial Revolution (Schwab, 2016).

In addition to the WEF, there are business-led groups like Conscious Capitalism, think tanks like the Aspen Institute and investor-led directives, like BlackRock CEO Larry Fink's annual letters to CEOs, that have advocated for strategies that drive sustainable long-term growth over short-term profit maximization. They join Ghoshal who blamed profit maximization for the absence of any moral or ethical considerations in management theory, and other management scholars like Bower and Paine (2017) who wrote that the dominance of shareholder primacy has resulted in more pressure for short-term results, less investment in people, and fewer transformational strategies and innovative business models. Additionally, political debates in the US and Europe have brought wider attention to troubling wealth disparities and an increasingly skeptical view of large corporations that can be attributed to shareholder primacy policies.

These and other factors have converged into a significant event for the movement toward a stakeholder view in management practice. In August 2019, the Business Roundtable, an association made up of the largest U.S.-based companies, revised its statement about the purpose of corporations. The new statement, signed by nearly 200 of its member chief executives including the leaders of JP Morgan, Apple, Pepsi and Walmart attempts to redefine the role of business in society. It states that "while each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders…We commit to deliver value to all of them, for the future success of our companies and, our communities and our country" (Business Roundable, 2019). (The full statement is found at https://opportunity.businessroundtable.org/ourcommitment/)

Returning to Ghoshal's question asked in 2005; "Why don't we actually acknowledge in our theories that companies survive and prosper when they simultaneously pay attention to the interests of customers, employees, shareholders and perhaps even the communities in which they

operate?" It seems that there has been a significant practice-based movement toward the acknowledgement that Ghoshal was seeking, yet the same cannot be said for management theories and schools of business.

The Business School Response

Ghoshal's harsh critique of management theories and business schools has been amplified in recent years, particularly in the US. Bennis and O'Toole's (2005) Harvard Business Review article entitled "How Business Schools Lost Their Way" launched a significant challenge to business school leaders and faculty that was met with little to no innovation (Christensen & Eyrin, 2011; Denning, 2018). Business schools have also been a target for criticism in the mainstream and business press. In addition to *Shut Down the Business School* (Parker, 2018), Davies and Starkey (2019) recounted the long tradition of criticisms of business schools, including Pfeffer & Fong (2002) asking whether it was "the end of business schools," Gioia & Corley's (2002) criticism of business schools prioritizing form over substance and losing corporate confidence, McDonald (2017) highlighting the limits of capitalism and the moral failure of the MBA at the Harvard Business School and Denning (2018) asking why business schools teach an outmoded curriculum. Some have argued that to meet the challenges presented by the Fourth Industrial Revolution, business schools will require a revolution of their own (Benjamin, 2018; Denning, 2014; Parker, 2018; Schumpeter blog, 2014).

With the increasing frequency of negative conjectures being thrust upon business schools, one might imagine that business schools would be fully engaged in seeking innovative and new ways to understand and master this emerging new world of the Fourth Industrial Revolution but most critics argue that business schools are still heavily invested in the perspectives that Ghoshal found to be so destructive (Denning, 2018). This has led many business school stakeholders

(future students, business and government leaders, public policymakers and funders) to develop negative perceptions of business schools and the value of a management education.

The Stakeholder Turn

The main point of this manuscript is that advancements in a stakeholder orientation in management practice have turned the tables on business schools and management theories. Declarations like the Davos Manifesto that was launched by the World Economic Forum in January of 2020, which states that a company is more than an economic unit generating wealth, and the Business Roundtable statement that says "while each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders" (Business Roundable, 2019), are notable in their turn away from the short-term, single-minded focus of advancing only the interest of shareholders.

If Ghoshal, as a practice-oriented scholar, could have witnessed the advancement of stakeholder capitalism driven by these practice-based influences, he would have most likely been encouraged. The questions I believe Ghoshal now would ask are; how, as a community of scholars of management and organizations, are we responding to this? Can business schools take on human and societal aspirations as part of the broader social system? Can business school performance be measured not only on knowledge generating capacity, but also on achievement of environmental, social and good governance objectives?

These kinds of questions appeal to scholars like Ghoshal, whose primary interests lie in synthesis, application and pedagogy. However, Ghoshal (2005) argued that scholars who are oriented toward the scholarships of integration and application (Boyer, 1990) had been pushed to the periphery and "insulated from the academic high table that is now reserved only for the scientists" (p. 82). To turn the tables and ask business schools to align with stakeholders brings

attention to a misalignment between the knowledge requirements of managers and leaders, the misplaced focus of business schools on what Ghoshal called "the pretense of knowledge and rigor" and the contested purpose of a business school education (Denning, 2018; Ghoshal, 2005; Khurana, 2007; Parker, 2018).

But perhaps even more important, from the perspective of interpreting Ghoshal, is that these questions demand a more positive view of human nature and a recognition that human behavior can be shaped by factors other than conscious, rational self interest. This is a meaningful distinction because Ghoshal believed the pessimistic ideologic view of shareholder primacy was responsible for the "bad management theories that destroy good management practice", as stated by Ghoshal;

> Combine agency theory with transaction costs economics, add in standard versions of game theory and negotiation analysis, and the picture of the manager that emerges is one that is…ruthlessly hard-driving, strictly top-down, command-and-control focused, shareholder-value-obsessed, win-at-any-cost business leader. (p. 85)

Ghoshal traced the source of "badness" in his explanation of how bad management theories were destroying good management practices. I will now turn the tables and examine some of Ghoshal's work to trace the source of "goodness" in good management practices.

A New Context

The practice-motivated turn toward a stakeholder view of management practice creates a refreshing new context in which to revisit and re-interpret Ghoshal's published research and, in the remainder of this manuscript I will examine two notable streams of Ghoshal's research for new insights into ways that business schools can respond to this turn in management practice. The two research streams are Ghoshal's work with Moran on the process of economic

development (Moran & Ghoshal, 1999) and his research on context and managerial action (Bartlett & Ghoshal, 1993; Ghoshal & Bartlett, 1994).

Institutional Pluralism. Ghoshal (2005), citing Weick (1989) and Lawrence (1992), believed strongly in pluralism and said that it is likely to lead to better research and to broadened usefulness. Pluralism was viewed as the only alternative to the ideological absolutism that he saw in schools of business.

Ghoshal's views align with Simon (1967) who described the business schools as having two sets of social systems that possess knowledge; one being the scientific-oriented social system that is based in the relevant disciplines, and the other being the practice-based social system that includes practice-oriented scholars, faculty who have significant practice experience or some combination of both. Simon described each social system as having elaborate institutions and procedures for storing, transmitting, developing and applying knowledge.

While both of these social systems possess knowledge, the perceived value of this knowledge is interpreted in different ways. Bourdieu (1977) offers a way for understanding how value can be interpreted in business school scholarship by expressing value in terms of capital that comes in three forms; *economic* capital, which is directly convertible into money, *cultural* capital, which is concerned with status and relative positions within a social field and *social* capital that represents a person's entirety of social relationships. The three types of capital appear to be distinct, but Bourdieu says they are very closely linked. All represent a type of currency and any one type of capital can serve as currency to be exchanged against others.

A key factor in viewing knowledge as a kind of currency that can create value for multiple stakeholders, is that business schools would need some process for the use and exchange of different kinds of knowledge. In the Fourth Industrial Revolution, securing the best

use of all knowledge is what is believed to be *the* economic problem that confronts not only the business school but society as a whole (Penrose, 1959; Schwab, 2016).

Organizing for Stakeholder Value. A framework for how business schools might organize around the concept of securing "the best use of all knowledge" and creating value for multiple stakeholders can be found in Moran and Ghoshal's (1999) theoretical framework that describes value creation as a process that involves resource combinations and exchanges. In this, Moran and Ghoshal draw from several strands of literature to relate the role of organizations and the resources within them to the process of value creation. In doing so, they provide the essential elements for a dynamic theory for how the two social systems as described by Simon (1967) can participate in value creation for multiple stakeholders in business schools.

Moran and Ghoshal's framework draws on the work of Schumpeter (1934) and Penrose (1959) to develop the perspective that economic development stems from the way resources are accessed and the framework they create for exchange. It also reflects the convictions, hopes, and aspirations of the organization members.

In this framework, knowledge can be viewed as a business school's key resource and the routines and processes by which knowledge is created and used becomes the defining characteristics of business schools. The concept of exchanging different types of capital as currency can be useful in creating an understanding of how each of the two social systems participate in value creation for business schools, and how they may rise to meet the challenges presented by the Fourth Industrial Revolution.

A precondition for these exchanges of social and cultural capital to occur is that these different types of capital are present in the system. This requires institutional pluralism, which is sometimes conflated with intellectual diversity. But pluralism is not diversity alone, it is an

active engagement with diversity, a seeking of understanding across lines of engagement (Eck, 2018).

Pluralism in a business school creates a new mental model that provides a different context and contributes to the exchange of social and cultural capital in important ways. First the scope of the exchange is broadened to include more opportunities. Second, practical knowledge that is currently undervalued is made available for deployment within the business school under a different set of motivating conditions, making it easier for new value-creating combinations to be discovered and executed, or in other words, to be "seen." In this new context, the exchange of social and cultural capital depends on earning trust, and the social and cultural capital possessed by each of the social systems thrives or declines according to the quality of exchange. (Pettigrew & Starkey, 2016).

Instead of a mental model that tends to privilege the sorting of people by academic discipline and favors early specialization, this new mental model values equally scientific-oriented academic knowledge and the practice-oriented knowledge associated with problem-based thinking across disciplines. It recognizes that knowledge is most powerful when it is most complete. With this thinking, business schools could be understood as markets for exchange, like the ancient agora, with both formal and informal currency that governs and enforces the terms of exchange. The new mental model encourages the "willing and able," and makes the institutional changes needed to support entrepreneurial, creative exchange efforts.

Making Exchange Viable. Moran and Ghoshal noted that there is always a gap that exists between what is (a) possible and would be (b) productive, and what is (c) realizable at any given time. In business schools, this gap is influenced by which knowledge is privileged and how. Business schools, and the social systems embedded within them, can combine to exert

powerful inertial forces that encourage people to deploy knowledge in ways that follow certain trajectories of disciplinary and institutional expectations. By specifying the rules of the game, business schools determine what possibilities are seen as productive, and influence what is even possible (Moran & Ghoshal, 1999; North, 1991).

However, with new combinations of social and cultural capital, the set of possibilities can expand and as a result, new sources of potential value to the business school are created. New combinations and exchanges can reprioritize what is possible and/or motivated for all stakeholders. This impacts the nature and extent of what is "seen," and then influences the ultimate path that the process of value creation takes for the economic system as a whole (Moran & Ghoshal, 1999).

Organizational Context. A second steam of research to examine is Ghoshal and Bartlett's work on organizational context and managerial action that involved studying the actions of managers in corporate turnarounds (Bartlett & Ghoshal, 1993; Ghoshal & Bartlett, 1994). In what they described as a messy research process, Ghoshal and Bartlett rejected management theories that were based on process variables related to formal structure and systems as they felt those theories were limited in their usefulness for analyzing behaviors in turnaround situations. Instead, they relied upon a set of assumptions that differed significantly from those that were used in most economic and behavioral theories at the time. Importantly, they chose to focus on the perspective of the practitioner believing that this would be more useful for the analysis of practice.

The framework they put forward was influenced by and expands on the argument that the main influence of general managers lies in their role as shapers of an organization's context (Ghoshal & Bartlett, 1994). They suggested that it is the interaction between action and context

that lies at the core of an organization's management process and they identified four elements of context that they claim influenced initiative, cooperation, and learning in the day-to-day behaviors of all those within the organization. Those four behavior-framing attributes are discipline, stretch, trust and support and are described as follows:

- Discipline involves people doing what they say they will do. Building discipline within an organization involves the development of clear standards and expectations, a system of open and fast-cycle feedback, and consistency in the application of sanctions.
- An environment of stretch requires the establishment of shared ambition, the emergence of a collective identity, and the development of personal significance in the task.
- The three most important contributing factors to trust were a higher level of perceived fairness and equity in the company's decision processes, a broader level of involvement in core activities, and an increase in the overall level of personal competence at all levels of the organization. But, for organizations that are engaged in complex and specialized activities, like schools of business, individual-level competencies rose to an even higher level of importance for creating an environment of mutual trust.
- Lastly, support involves a greater availability of resources along with increased autonomy and more help in creating an environment that supports rather than constrains lower-level initiatives and entrepreneurship.

Notable in Bartlett and Ghoshal's work on organizational context was a more positive view of human nature that didn't rely on a premise of altruism, but instead reflected a more relativist view of personal attributes. This model sees human beings as being capable of both initiative and shirking, being given to both collaboration and opportunism, and being constrained by inertia but also capable of learning. The assumptions for this model were based upon what

they called a situationalist perspective of human behavior saying that actual behavior is determined in part by the prior disposition of the actor and in part by the situation they face; thus drawing from the Lewin's theory B=f(P+E) that states that a person's behavior is a function of the person and their environment (Lewin, 1951).

Bartlett and Ghoshal's (1993) process model for integrating organizational context both assumes and shapes collaborative behavior. It is a renewal process designed to capitalize on a human motivation to learn, while creating a context that drives individuals to do so. This helps to create an organizational context that encourages organizational members to take initiative, cooperate and learn. The interactive and mutually reinforcing development of management actions, organizational context and individual behavior is of central importance. Figure 1 illustrates the role of context in shaping individual behavior.

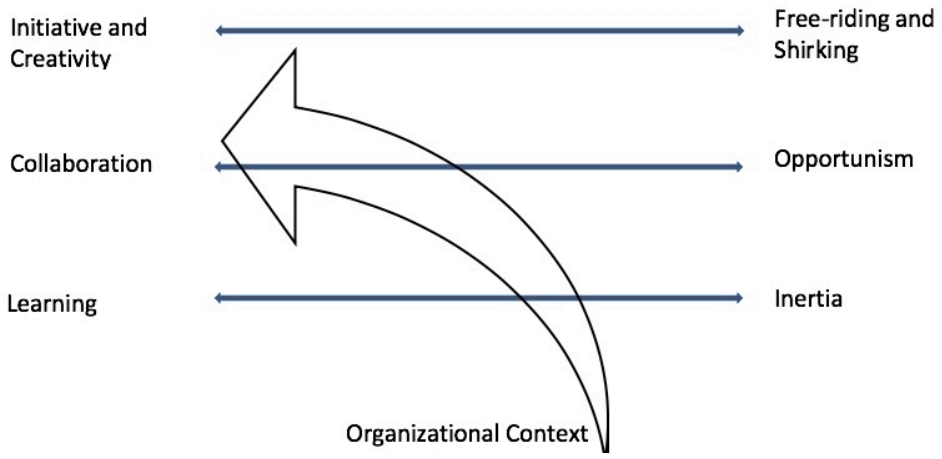

Figure 1. Shaping individual behavior: The role of context (Bartlett & Ghoshal, 1993)

Ghoshal and Bartlett's model suggests that a business school can create and embed in its context a work ethic that would induce rational yet value-oriented actions on the part of the

"willing and able," not just as a means to an end, but in furthering the interests of the business school as an end in itself.

Conclusion

In re-interpreting Ghoshal's work for new insights, a key observation that emerges is how changing assumptions about human behavior produced fundamentally different analysis and conclusions, especially when compared to the role accorded to incentives in agency theory and transaction cost economics (Ghoshal & Bartlett, 1994).

In some ways this analysis tells us what is already known; that the problem of value creation in business schools is systemic, with solutions that are multidisciplinary, integrated and require the participation of multiple stakeholders (Khurana & Spender, 2012; Simon, 1967). Yet, this also suggests that it is possible to characterize the problem of value creation in business schools in terms of motivated behaviors in the pursuit of exchange (Phan, 2019).

This analysis echoes Ghoshal's call for pluralism and presents a mental model that views the business school as two social systems, each possessing knowledge, albeit different kinds of knowledge, and each possessing capital, albeit different types of capital, that can be used for combination and exchange in order to create new value. Some exchanges are direct, as in collaborative efforts, and others can be mediated by a currency that can be understood as either economic, social or cultural capital.

In this analysis I equate the stakeholder view of management practice with what Ghoshal called good management practice and trace the "goodness" to three things;

1. A positive view of human nature as a fundamental assumption about the nature of the individuals in practice matters more than prescriptive management theories.

2. Day-to-day disciplined action, trust and support from leaders and among organization members matters more than process variables related to formal structures and systems.
3. The enactment of good management practices depends upon “seeing opportunities” and enlisting the “willing and able.” All productive opportunities remain restricted by the extent to which these conditions are satisfied.

Reflection

There is a performance-like quality to Ghoshal’s work that makes it impossible to categorize. It can be simultaneously dense and transparent. It is vigorously grounded in theory yet maintains a tight-fisted hold on common sense. Like a great work of art, its existence is the proof that it can be done.

Ghoshal’s enduring influence and impact can be evidenced by the fact that the article “Bad Management Theories are Destroying Good Management Practices” is still the most cited article in Academy of Management Learning & Education. His continuing ability to provide new insight into how to interpret our world and shape the way we practice management can be evidenced by my re-interpretation of Ghoshal’s research work in the context of a stakeholder view of value in business schools. Yet, neither of these things can fully embody Ghoshal’s prescience, his intellectual curiosity, his willingness to cross disciplinary boundaries and challenge the status quo, his ability to see multiple perspectives, and his openness to work in the messiness of real-world situations. All of these things should continue to distinguish Ghoshal’s work, provide inspiration, and enhance his legacy for years to come.

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