© Academy of Management Learning & Education, 2005, Vol. 4, No. 1, 75–91.

Bad Management Theories Are Destroying Good Management Practices

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The corporate scandals in the United States have stimulated a frenzy of activities in business schools around the world. Deans are extolling how much their curricula focus on business ethics. New courses are being developed on corporate social responsibility. Old, highly laudatory cases on Enron and Tyco are being hurriedly rewritten. "What more must we do?", the faculty are asking themselves in grave seminars and over lunch tables (Bartunek, 2002).

Business schools do not need to do a great deal more to help prevent future Enrons; they need only to stop doing a lot they currently do. They do not need to create new courses; they need to simply stop teaching some old ones. But, before doing any of this, we—as business school faculty—need to own up to our own role in creating Enrons. Our theories and ideas have done much to strengthen the management practices that we are all now so loudly condemning.

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"The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood," wrote John Maynard Keynes (1953: 306). "Indeed the world is run by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences are usually the slaves of some defunct economist. . . . It is ideas, not vested interests, which are dangerous for good or evil" Keynes (1953: 306).

This is precisely what has happened to management. Obsessed as they are with the "real world" and sceptical as most of them are of all theories, managers are no exception to the intellectual slavery of the "practical men" to which Keynes referred. Many of the worst excesses of recent management practices have their roots in a set of ideas that have emerged from business school academics over the last 30 years.

In courses on corporate governance grounded in agency theory (Jensen & Meckling, 1976) we have taught our students that managers cannot be trusted to do their jobs—which, of course, is to maximize shareholder value—and that to overcome "agency problems," managers' interests and incentives must be aligned with those of the shareholders by, for example, making stock options a significant part of their pay. In courses on organization design, grounded in transaction cost economics, we have preached the need for tight monitoring and control of people to prevent "opportunistic behavior" (Williamson, 1975). In strategy courses, we have presented the "five forces" framework (Porter, 1980) to suggest that companies must compete not only with their competitors but also with their suppliers, customers, employees, and regulators.

MBA students are not alone in having learned, for decades, these theories of management. Thousands—indeed, hundreds of thousands—of executives who attended business courses have learned the same lessons, although the actual theories were often not presented to them quite so directly. 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.

Editor's Note. Sumantra Ghoshal died unexpectedly after drafting this manuscript. Our gratitude belongs to his son, Ananda Ghoshal, his secretary, Sharon Wilson, and his student, Felipe Monteiro, all of whom were instrumental in bringing this work to publication. For a more detailed account of the genesis of this paper, see the *From the Editor* column.

Why then do we feel surprised by the fact that executives in Enron, Global Crossing, Tyco, and scores of other companies granted themselves excessive stock options, treated their employees very badly, and took their customers for a ride when they could? Besides, the criminal misconduct of managers in a few companies is really not the critical issue. Of far greater concern is the general delegitimization of companies as institutions and of management as a profession (*The Economist:* 25–31 October, 2003) caused, at least in part, by the adoption of these ideas as taken-for-granted elements of management practice.

Several scholars have recently voiced their concerns about the current state of management research and pedagogy (e.g., Porter & McKibbin, 1988; Leavitt, 1989; Hambrick, 1994; Mintzberg & Gosling, 2002; Donaldson, 2002; Pfeffer & Fong, 2002). In the main, their arguments have focused on the lack of impact of management research on management practice and the lack of effectiveness of management education for business performance of students.

In this article, I raise a very different concern: I argue that academic research related to the conduct of business and management has had some very significant and negative influences on the practice of management. These influences have been less at the level of adoption of a particular theory and more at the incorporation, within the worldview of managers, of a set of ideas and assumptions that have come to dominate much of management research. More specifically, I suggest that by propagating ideologically inspired amoral theories, business schools have actively freed their students from any sense of moral responsibility.

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Figure 1 provides a roadmap of the arguments that follow. As has been extensively documented in the literature (e.g., Friga, Bettis, & Sullivan, 2003), over the last 50 years business school research has increasingly adopted the "scientific" model—an approach that Hayek (1989) described as "the pretense of knowledge." This pretense has demanded theorizing based on partialization of analysis, the exclusion of any role for human intentionality or choice, and the use of sharp as-

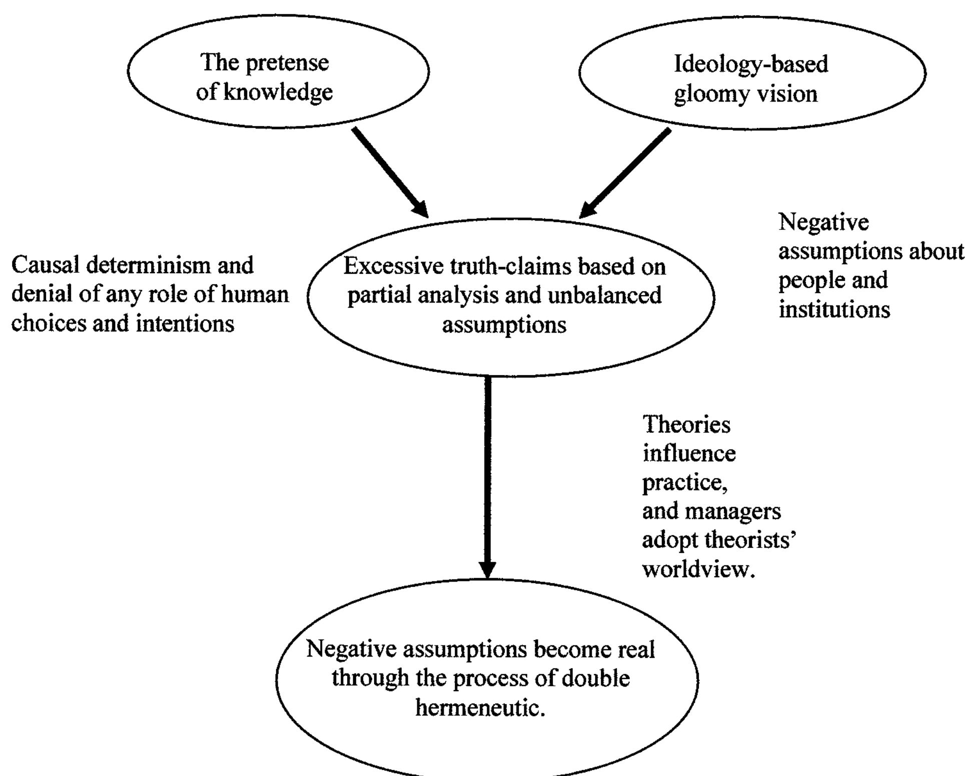

FIGURE 1
The Process of Bad Theories Destroying Good Practice

sumptions and deductive reasoning (Bailey & Ford, 1996). Since morality, or ethics, is inseparable from human intentionality, a precondition for making business studies a science has been the denial of any moral or ethical considerations in our theories and, therefore, in our prescriptions for management practice.

At the same time, a particular ideology has increasingly penetrated most of the disciplines in which management theories are rooted. Described by Milton Friedman (2002) as "liberalism," this ideology is essentially grounded in a set of pessimistic assumptions about both individuals and institutions—a "gloomy vision" (Hirschman, 1970) that views the primary purpose of social theory as one of solving the "negative problem" of restricting the social costs arising from human imperfections. Combined with the pretense of knowledge, this ideology has led management research increasingly in the direction of making excessive truth-claims based on partial analysis and both unrealistic and biased assumptions.

All of this would still not lead to any negative consequences for management practice but for the distinctive feature of double hermeneutic that characterizes the link between theory and practice in social domains. Unlike theories in the physical sciences, theories in the social sciences tend to be self-fulfilling (Gergen, 1973).

A theory of subatomic particles or of the universe—right or wrong—does not change the behaviors of those particles or of the universe. If a theory assumes that the sun goes round the earth, it does not change what the sun actually does. So, if the theory is wrong, the truth is preserved for discovery by someone else. In contrast, a management theory—if it gains sufficient currency—changes the behaviors of managers who start acting in accordance with the theory. A theory that assumes that people can behave opportunistically and draws its conclusions for managing people based on that assumption can induce managerial actions that are likely to enhance opportunistic behavior among people (Ghoshal & Moran, 1996). A theory that draws prescriptions on corporate governance on the assumption that managers cannot be trusted can make managers less trustworthy (Osterloh & Frey, 2003). Whether right or wrong to begin with, the theory can become right as managers—who are both its subjects and the consumers—adapt their behaviors to conform with the doctrine. As I will demonstrate here, this is precisely what has happened to management practice over the last several decades, converting our collective pessimism about managers into realized pathologies in management behaviors.

THE PRETENSE OF KNOWLEDGE

Our primary endeavor as business school academics over the last half century has been to make business studies a branch of the social sciences (Schlossman, Sedlak, & Wechsler, 1998). Rejecting what we saw as the "romanticism" of analyzing corporate behaviors in terms of the choices, actions, and achievements of individuals (e.g., Andrews, 1980), we have adopted the "scientific" approach of trying to discover patterns and laws, and have replaced all notions of human intentionality with a firm belief in causal determinism for explaining all aspects of corporate performance. In effect, we have professed that business is reducible to a kind of physics in which even if individual managers do play a role, it can safely be taken as determined by the economic, social, and psychological laws that inevitably shape peoples' actions. Legitimized by a set of influential reports (such as Gordon & Howell, 1959) and supported by significant investments by, among others, the Ford Foundation (about $250 million, in 2003 dollars), these beliefs have become dominant in business schools in the United States and around the world (Clegg & Ross-Smith, 2003).

Adoption of scientific methods has undoubtedly yielded some significant benefits for both our research and our pedagogy, but the costs too have been high. Unfortunately, as philosophy of science makes clear, it is an error to pretend that the methods of the physical sciences can be indiscriminately applied to business studies because such a pretension ignores some fundamental differences that exist between the different academic disciplines.

Figure 2, reproduced from Elster (1983), provides one way of understanding these differences. As Elster argued, from the perspective of philosophy of science, one must first distinguish between the natural sciences and the humanities. Within the natural sciences, there is a need to distinguish the study of inorganic nature, such as physics, and the study of organic nature, such as biology. Within the humanities, similarly, a distinction needs to be made between the social sciences, such as economics and psychology, and aesthetic disciplines, such as art. Eschewing for the moment the arguments of those who would classify management as a practicing art (e.g., Eccles & Nohria, 1992), let us accept the more common view and consider management-related theories as part of the social sciences.

His interests limited to the academic concerns of scholarship, Elster argued that the fundamental difference between these different fields lies neither in the method of inquiry nor in the interests they serve; it lies instead in the mode of explana-

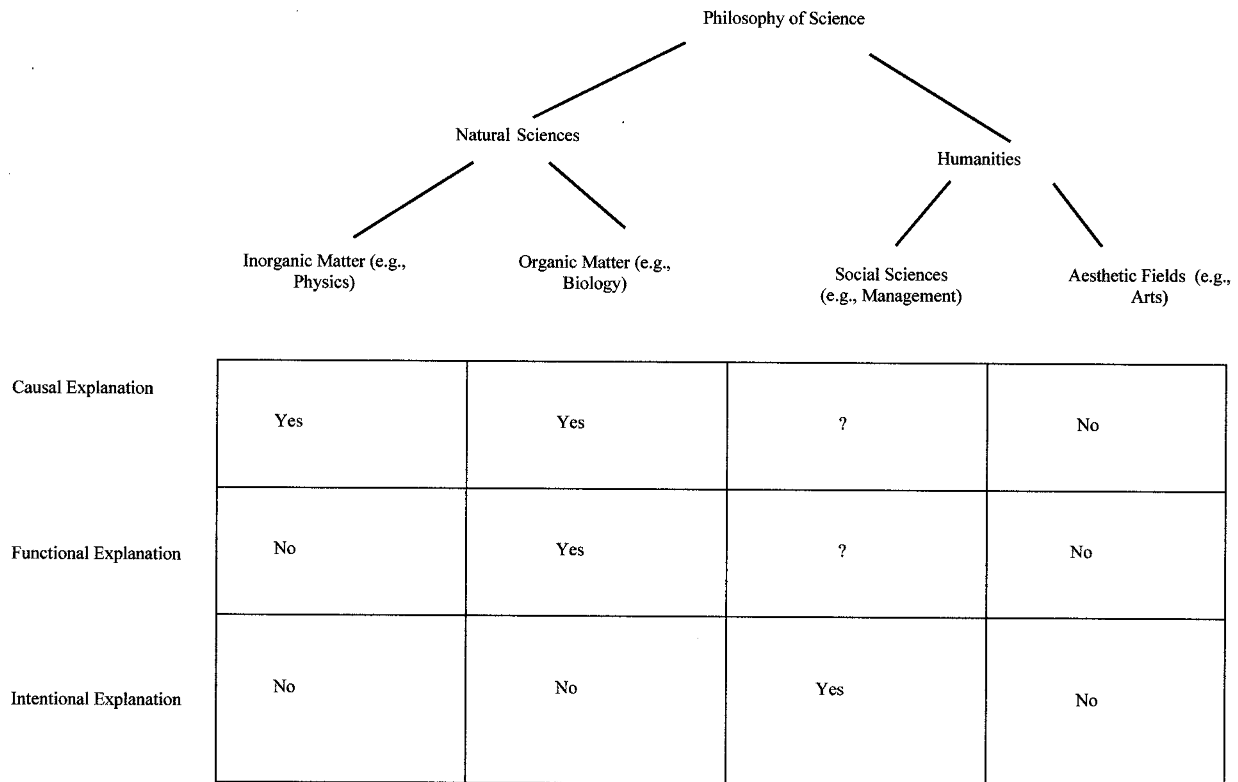

FIGURE 2
The Different Modes of Explanation for the Different Sciences.
Note. From *Explaining Technical Change,* by J. Elster, 1983, Cambridge, England: Cambridge University Press. Adapted with permission.

tion and theorizing that is appropriate for each. Categorizing such modes as causal, functional, and intentional, Elster demonstrated why for the sciences of inorganic matter, such as physics, the only acceptable mode of explanation is the causal mode. Functional explanations, based on notions such as benefits, evolution, or progress have no role in physics, nor is there any room for intentional or teleological explanations, such as those based on some notion of actor imagination or will.

Functional explanations, however, play an important role in the sciences of organic matter, such as biology. All one has to do to explain a particular feature of an organism, or some aspect of its behavior, is to demonstrate that the feature or behavior enhances its reproductive fitness. The reason such functional explanations are adequate, however, lies in the availability of an overarching causal theory: that of natural selection. There is no role of intentionality within biology because the process of evolution is driven by random error or mutation, over which the sources of variation or the units of selection have no influence.

The basic building block in the social sciences, the elementary unit of explanation, is individual action guided by some intention. In the presence of such intentionality, functional theories are suspect, except under some special and relatively rare circumstances, because there is no general law in the social sciences comparable to the law of natural selection in biology. As Elster explained, intentional adaptation differs from functional adaptation

> in that the former can be directed to the distant future, whereas the latter is typically myopic and opportunistic. Intentional beings can employ such strategies as "one step backward, two steps forward," which are realized only by accident in biological evolution (1983: 36).

There is, of course, a role for causal theories in the social sciences, but it is a relatively limited one, suitable, for example, for the analysis of phenomena involving the interplay among a very large number of diverse actors (e.g., capital markets), where the intentions of individual actors can be ignored (similar to the analytical underpinnings of statistical quantum mechanics that does

not intend to explain the outcomes for individual particles but makes statistical estimates of aggregate outcomes). However, for a vast range of issues relevant to the study of management, such conditions are not attained. For these issues, human intentions matter. And, intentions are mental states; so to say that a particular action of an individual was caused by a particular intention is not a causal explanation. To quote Elster, "using causal explanation, we can talk about all there is, including mental phenomena, but we shall not be able to single out mental phenomena from what else there is" (1983).

Management theories at present are overwhelmingly causal or functional in their modes of explanation. Ethics, or morality, however, are mental phenomena. As a result, they have had to be excluded from our theory, and from the practices that such theories have shaped. In other words, a precondition for making business studies a science as well as a consequence of the resulting belief in determinism has been the explicit denial of any role of moral or ethical considerations in the practice of management. No one has voiced this denial more strongly than Milton Friedman: "Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible" (2002: 133).

To both the managers and the management academics who profess these beliefs, I refer the words of Isiah Berlin: "One may argue about the degree of difference that the influence of this or that individual made in shaping events. But to try to reduce the behaviours of individuals to that of impersonal social forces not further analyzable into the conduct of men who. . . make history. . . is a form of false consciousness of bureaucrats and administrators who close their eyes to all that proves incapable of quantification, and thereby perpetrate absurdities in theory and dehumanisation in practice" (2002: 26).

When Richard Posner claims that justice is important only because it leads to the avoidance of waste, he perpetrates absurdities in theory, as indeed pointed out by Todd Buchholtz (1999) when he described that claim as a "dim observation by a brilliant man" (p. 199). When Gary Becker (1993) asserts that theft is harmful only because it diminishes productivity, he closes his eyes to all that proves incapable of quantification and falls victim to the "false consciousness" to which Isiah Berlin refers.

Similarly, when managers, including CEOs, justify their actions by pleading powerlessness in the face of external forces, it is to the dehumanization of practice that they resort. When they claim that competition or capital markets are relentless in their demands, and that individual companies and managers have no scope for choices, it is on the strength of the false premise of determinism that they free themselves from any sense of moral or ethical responsibility for their actions.

It is not only morality, however, that has been a victim of this endeavor of business academics to make management a science; common sense, too, has suffered a toll. It is to this cost of losing the wisdom of common sense that Donald Campbell (1988) referred when he provided numerous examples of how the application of social theories had led to poor public policy decisions in the United States. As he wrote, referring to the application of scientific methods for the assessment of public programs, "if we present our resulting improved truth-claims as though they were definitive achievements comparable to those in the physical sciences, and thus deserving to override ordinary wisdom when they disagree, we can be socially destructive."

Friedrich von Hayek dedicated his entire Nobel Memorial Lecture to the danger posed by scientific pretensions in the analysis of social phenomena. Speaking as an economist and acknowledging that "as a profession we have made a mess of things," he placed the blame on "the pretense of knowledge," which is how he titled his talk (1989: 3–7). "It seems to me that this failure of economists to guide public policy more successfully is clearly connected with their propensity to imitate as closely as possible the procedures of the brilliantly successful physical sciences," said Hayek. Because of the very nature of social phenomena, which Hayek described as "phenomena of organized complexity," the application of scientific methods to such phenomena "are often the most unscientific, and, beyond this, in these fields there are definite limits to what we can expect science to achieve."

As an example of how this pretense of science affects management practice, consider the dictum of Milton Friedman that few managers today can publicly question, that their job is to maximize shareholder value. Where did the enormous certainty that this assertion seems to carry come from?

After all, we know that shareholders do not own the company—not in the sense that they own their homes or their cars. They merely own a right to the residual cash flows of the company, which is not at all the same thing as owning the company. They have no ownership rights on the actual assets or

businesses of the company, which are owned by the company itself, as a "legal person." Indeed, it is this fundamental separation between ownership of stocks and ownership of the assets, resources, and the associated liabilities of a company that distinguishes public corporations from proprietorships or partnerships. The notion of actual ownership of the company is simply not compatible with the responsibility avoidance of "limited liability."

We also know that the value a company creates is produced through a combination of resources contributed by different constituencies: Employees, including managers, contribute their human capital, for example, while shareholders contribute financial capital. If the value creation is achieved by combining the resources of both employees and shareholders, why should the value distribution favor only the latter? Why must the mainstream of our theory be premised on maximizing the returns to just one of these various contributors?

The answer—the only answer that is really valid—is that this assumption helps in structuring and solving nice mathematical models. Casting shareholders in the role of "principals" who are equivalent to owners or proprietors, and managers as "agents" who are self-centered and are only interested in using company resources to their own advantage is justified simply because, with this assumption, the elegant mathematics of principal–agent models can be applied to the enormously complex economic, social, and moral issues related to the governance of giant public corporations that have such enormous influence on the lives of thousands—often millions—of people.

But then, to make the model yield a solution, some more assumptions have to be made. So, the theory assumes that labor markets are perfectly efficient—in other words, the wages of every employee fully represent the value of his or her contributions to the company and, if they didn't, the employee could immediately and costlessly move to another job. With this assumption, the shareholders can be assumed as carrying the greater risk, thus making their contribution of capital more important than the contribution of human capital provided by managers and other employees and, therefore, it is their returns that must be maximized (Jensen & Meckling, 1976).

The truth is, of course, exactly the opposite. Most shareholders can sell their stocks far more easily than most employees can find another job. In every substantive sense, employees of a company carry more risks than do the shareholders. Also, their contributions of knowledge, skills, and entrepreneurship are typically more important than the contributions of capital by shareholders, a pure commodity that is perhaps in excess supply (Quinn, 1992). As Grossman and Hart (1986) showed, once we admit incomplete contracts, residual rights of control are optimally held by the party whose investments matter more in terms of creating value. If these truths are acknowledged, there can be no basis for asserting the principle of shareholder value maximization. There just aren't any supporting arguments.

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Once again, Milton Friedman (1953) has provided a compelling counterargument: Don't worry if the assumptions of our theories do not reflect reality; what matters is that these theories can accurately predict the outcomes. The theories are valid because of their explanatory and predictive power, irrespective of how absurd the assumptions may look from the perspective of common sense.

What is interesting is that agency theory, which underlies the entire intellectual edifice in support of shareholder value maximization, has little explanatory or predictive power. Its solution to the agency model yields some relatively straightforward prescriptions: Expand the number and influence of independent directors on corporate boards so that they can effectively police management; split the roles of the chairman of the board and the chief executive officer so as to reduce the power of the latter; create markets for corporate control, that is, for hostile takeovers, so that raiders can get rid of wasteful managers; and pay managers in stock options to ensure that they relentlessly pursue the interests of the shareholders. The facts are that none of these factors have the predicted effects on corporate performance.

A review of 54 studies on the performance effects of board composition shows that the proportion of independent directors on the board has no significant effect on corporate performance. A similar review of 31 studies on the effects of separating leadership roles demonstrates that whether the same or different individuals occupy the positions of chairman and CEO does not affect corporate performance in any way. These studies cover companies based in different countries, and the conclusions are valid irrespective of whether performance is assessed in terms of market value of the company or accounting measures, such as return

on capital employed (Dalton, Daily, Ellstrand, & Johnson, 1998).

Empirical evidence on the effects of a market for corporate control is highly ambiguous. And even Michael Jensen, the proponent of the theory, has been forced to admit that stock options have not worked quite the same way as he had hoped (*The Economist,* November 16, 2002: 66).

Unrealistic assumptions and invalid prescriptions—yet, the theory and the dictum it leads to remain absolute. As Margaret Blair (1995) has shown, it is this theory, amplified by the power of institutional investors and their political and academic supporters, that influenced both regulatory changes and court decisions in the United States, ultimately yielding to the argument a level of legitimacy and certainty that few managers or academics now dare question. At the same time, as Thomas Kochan has observed, the root cause of the recent corporate scandals in the United States lies in this "over-emphasis American corporations have been forced to give in recent years to maximizing shareholder value without regard for the effects of their actions on other stakeholders" (2002: 139).

What is most curious is that despite the lack of both face validity and empirical support, agency theory continues to dominate academic research on corporate governance (Daily, Dalton, & Cannella, 2003). At the same time, despite the aberrations that have occurred in companies that fully conformed to the prescriptions of this theory—such as in Enron that had loaded its board with many (80%) high-profile independent directors who chaired most key committees, separated the chairman and chief executive roles, granted generous stock options to its senior managers, and operated in the economy with the most advanced market for corporate control—all regulatory reviews of corporate governance, such as by the SEC in the United States, by Derek Higgs in the United Kingdom, and by the Narayanamurthy Committee in India, are relying even more strongly on rigorous implementation of the same discredited prescriptions!

Why do we not fundamentally rethink the corporate governance issue? 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? Such a perspective is available, in stewardship theory for example (Davis, Schoorman, & Donaldson, 1997); why then do we so overwhelmingly adopt the agency model in our research on corporate governance, ignoring this much more sensible proposition?

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The honest answer is because such a perspective cannot be elegantly modeled—the math does not exist. Such a theory would not readily yield sharp, testable propositions, nor would it provide simple, reductionist prescriptions. With such a premise, the pretense of knowledge could not be protected. Business could not be treated as a science, and we would have to fall back on the wisdom of common sense that combines information on "what is" with the imagination of "what ought to be" to develop both a practical understanding of and some pragmatic prescriptions for "phenomena of organized complexity" that the issue of corporate governance represents.

This too is scholarship, but it yields theory that does not pretend to be scientific laws but merely serves as temporary "walking sticks"—in Fritz Roethlisberger's (1977) terms—to aid sense making as we go along, to be used only until a better walking stick can be found. And, if the association of scholarship with common sense seems like an oxymoron, it is only because of the extremely restrictive definition of the term *scholarship* that the pretense of knowledge has straight-jacketed us into.

In describing himself and his work, Sigmund Freud wrote: "[Y]ou often estimate me too highly. I am not really a man of science, not an experimenter, and not a thinker. I am nothing but by temperament a conquistador—an adventurer, if you want to translate the term—with the curiosity, the boldness, and the tenacity that belong to that type of being" (In Jones, 1964: 171).

Freud's inductive and iterative approach to sense making, often criticized for being ad hoc and unscientific, was scholarship of common sense. So indeed was Darwin's, who too practiced a model of research as the work of a detective, not of an experimenter, who was driven by the passions of an adventurer, not those of a mathematician. Scholarship of common sense is the epistemology of disciplined imagination, as advocated by Karl Weick (1989), and not the epistemology of formalized falsification that was the doctrine of Karl Popper (1968).

To protect the pretense of knowledge, we have created conditions under which this kind of scholarship can no longer flourish in our community. This is true of all social science disciplines but, curiously, perhaps it is most intensely true in business schools where, in our desire for respect from scholars in other fields, we have become even

more intolerant of the scholarship of common sense than those whose respect we seek (Bailey & Ford, 1996). "We ask the reader to consider whether the evidence provided by people such as Freud, Marx or Darwin would meet the empirical standards of the top journals in organizational research," asked Robert Sutton and Barry Staw (1995: 371–384). In the same vein one can ask, "Would the arguments of a Hayek, a McGregor, or a Barnard meet the standards by which these journals evaluate theory?"

In his book *Scholarship Reconsidered,* Ernest Boyer (1990) described four different kinds of scholarship: the scholarship of discovery (research), the scholarship of integration (synthesis), the scholarship of practice (application), and the scholarship of teaching (pedagogy). Historically, business schools have celebrated and accommodated as equals the practitioners of all four kinds of scholarship. Over the last 30 years, we have lost this taste for pluralism. What started off as an entirely justified effort for introducing the scholarship of discovery to the study of business has ended up in the excess of eliminating all other forms of scholarship from the world of business schools. Those with primary interests in synthesis, application, or pedagogy have been eliminated from our milieu or, at best, accommodated at the periphery and insulated from the academic high table that is now reserved only for the scientists.

What would happen if we reversed this trend so as to provide some space to these people? They exist—often outside the academic mainstream—and it is on their work that we primarily rely for meeting our teaching demands. What if we included them again in the mainstream, as equal members—judging them not on their scientific credentials but on their practical knowledge? What if in acknowledgment of the "research benefit to generalists and generalism" (Pfeffer & Fong, 2002: 88), we granted the generalists tenure, allowed them to groom others like them, and to interact with the scientists at the high table? It would compromise the pretense of knowledge, but would it not create a richer environment for knowledge creation? Would it not help us weed out each other's absurdities in theory and, thereby, reduce the chances of dehumanization of practice?

IDEOLOGY-BASED GLOOMY VISION

Currently influential theories of business and management span diverse academic disciplines including psychology, sociology, and, of course—preeminent of all—economics. Collectively, however, they have increasingly converged on a pessimistic view of human nature, on the role of companies in society, and of the processes of corporate adaptation and change. These negative assumptions are manifest in the strong form of determinism in both ecological (e.g., Hannan & Freeman, 1977) and institutional (e.g., DiMaggio & Powell, 1983) analysis of organizations; in the denial of the possibility of purposeful and goal-directed adaptation in behavioral theories of the firm (e.g., Cyert & March, 1963); in the focus on value appropriation rather than value creation in most theories of strategy (e.g., Porter, 1980); and in the assumptions about shirking, opportunism, and inertia in economic analysis of companies (e.g., Alchian & Demsetz, 1972; Williamson, 1975).

In his article "The Search for Paradigms as a Hindrance to Understanding," Albert Hirschman (1970) has traced the source of this pessimism to what he calls a "paradigm-based gloomy vision" that, as the title of his article suggests, he views as a critical barrier to developing effective understanding of complex social phenomena. Based essentially on an ideology, this gloomy vision is deeply embedded within the theories as starting assumptions—which, therefore, are exempt from the need for conforming either to common sense or to empirical evidence—and it is these pessimistic assumptions which have, through the self-fulfilling process we have described, curbed managers' ability to play out a more positive role in society.

Consider, for example, the assumptions regarding human nature. As Herbert Simon observed, "Nothing is more fundamental in setting our research agenda and informing our research methods than our view of the nature of human beings whose behaviours we are studying. . . It makes a difference to research, but it also makes a difference for the proper design of . . . institutions" (1985: 293).

Mainstream economics has, in the main, always worked on the assumption of *Homo Economicus*—a model of people as rational self-interest maximizers. Although recently, primarily in the field of behavioral economics, attention has been paid to systematic deviations from rationality in human behavior, such attention has largely been limited to "foolishness" and not to any aspect of other-than-self-interested preferences of individuals (e.g., Kahneman, Slovic, & Tversky, 1982).

Even practitioners of sociology and psychology, the starting points of which as academic fields were defined by the recognition that human behavior can be shaped by factors other than conscious, rational self-interest, have increasingly adopted the notion of behavior as being self-seeking as their foundational assumption. Friendship

ties of people are now analyzed by sociologists as means for individuals to use social networks to enhance their personal influence, power, or pay (e.g., Burt, 1997). And social psychologists increasingly resort to the same assumption about human nature when studying how people interact with others (e.g., Homans, 1961; Thibaut & Kelley, 1959).

Common sense has, of course, always recognized that human behavior can be influenced by other motives. Increasingly, empirical evidence provides overwhelming support to what common sense suggests. It is not only in behaviors such as mothers taking care of their children, people leaving a tip after a meal in restaurants they are unlikely to visit again, or Peace Corps volunteers toiling amid the depravations of impoverished countries that the limitations of the self-interest model become clear—they become manifest even in careful experiments devised by economists to test their theories under controlled conditions in which "aberrations," such as altruism or love are strictly excluded.

Consider, for example, the "ultimatum game" in which one player, designated as the proposer, is given the opportunity to propose a division of a certain sum—a gift—between herself and another player, designated as the responder. If the responder accepts the proposal, the sum is divided as proposed. If he rejects the proposal, neither player receives anything. In any variant of the self-interest-based model of human behavior, the proposer ought to offer only a token sum to the responder, keeping the bulk of the amount for herself, and the responder ought to accept the proposal, since even a token sum is more than nothing, which is the only alternative available to him.

Much to the dismay of all ardent supporters of the *Homo Economicus* model, including those who have proposed some relatively more sophisticated versions of the model (e.g., Jensen & Meckling, 1994), this outcome almost never materializes in experiments (Camerer & Thaler, 1995). Token offers are rarely made, and even more rarely accepted. Often proposers offer a 60:40 division, taking advantage of their position as first mover, but not exploiting that advantage fully because of their concerns for the responder. Most frequently, however, they propose a 50:50 split, out of a notion of fairness, which suggests that windfalls, that is, gains not merited through contributions but by chance, should be distributed equally among those involved in the event.

In other words, people have preferences that, in the language of Avner Ben-Ner and Louis Putterman (1998), can be classified as self-regarding, other-regarding, and process-regarding. As they wrote, "self-regarding preferences concern the individual's own consumption and other outcomes, other-regarding preferences concern the consumption and outcomes of others, and process-regarding preferences concern the manner in which the individual in question and others behave, including the ways in which they attain outcomes of interest" (p. 7). Also, these preferences do not stand in a hierarchy but represent independent human needs. As Amartya Sen notes, "in acknowledging the possibility of prudential explanation of apparently moral conduct, we should not fall into the trap of presuming that the assumption of pure self-interest is, in any sense, more elementary than assuming other values. Moral or social concerns can be just as basic or elementary" (1998: xii). James Q. Wilson (1993) goes even further: "On balance, I think other-regarding features of human nature outweigh the self-regarding ones."

If both common sense and empirical evidence suggest the contrary, why does the pessimistic model of people as purely self-interested beings still so dominate management-related theories? The answer lies not in evidence but in ideology. Theories of social phenomena are, and have to be, ideologically motivated. Despite the pretense to be values-free, no social theory can be values-free. And, while no social science discipline makes a stronger claim to objectivity than economics, no domain of the social sciences is more values-laden in both its assumptions and its language than economics and all its derivatives, including much of modern finance and management theories (Frankfurter & McGoun, 1999). As Robert Nelson (2001) has observed, "[t]he closest predecessors for the current members of the economics profession are not scientists such as Albert Einstein or Issac Newton; rather, we economists are more truly the heirs of Thomas Acquinas and Martin Luther."

But what is the connection between ideology and pessimism? Why is the ideology pessimistic? Again, Milton Friedman (2002) has provided the most honest and direct answer. He labeled the ideology as "liberalism," cautioning at the same time, however, that his use of the term referred not to its corrupted association with concepts such as social welfare or equality, but to its earlier emphasis on "freedom as the ultimate goal and the individual as the ultimate entity in the society." He also recognized that the ideology was more commonly referred to as "conservatism," but he preferred "liberalism" because it sounded more "radical" (p. 6).

At the heart of this ideology lies two convictions. First, in Friedman's words, "a major aim of the liberal is to leave the ethical problem for the indi-

vidual to wrestle with." In other words, it can and, indeed, must be excluded from social theory. The way to do so is to base all theories on the assumption of homogeneous human behavior based on self-interest. And, second, "the liberal conceives of men as imperfect beings . . . and regards the problem of social organization to be as much a negative problem of preventing bad people from doing harm as of enabling good people to do good. . ." (p. 12). And, given that much of social science until then had focused on the second part of the problem, the agenda of social scientists thereon, that is, for the last 40 years has focused on the first part, that is, the "negative problem." Hence the pessimism, the ideology-based gloomy vision.

Jeffrey Pfeffer (1993), among others, has criticized management scholars for proliferating theories instead of seeking consensus on a particular paradigm. He is right about the proliferation of diverse theories, but wrong in assuming that a dominant paradigm is not emerging. While within individual fields, such as organization theory or strategic management, authors can and do publish research grounded in very different assumptions and traditions, Friedman's version of liberalism has indeed been colonizing all the management-related disciplines over the last half century (see Fig. 3).

The roots of the ideology lie in the philosophy of radical individualism articulated, among others, by Hume, Bentham, and Locke (Berlin, 2002). While the philosophy has influenced the work of many scholars in many different institutions, its influence on management research has been largely mediated by the University of Chicago. It is in and through this institution that "liberalism," as Friedman called it, has penetrated economics, law, sociology, social psychology and most other core disciplines, yielding theories such as agency theory, transaction cost economics, game theory, social network analysis, theories of social dilemmas, and so on, that we now routinely draw on both, radical individualism and Friedman's liberalism, to frame our research and to guide our teaching.

In their analysis of the development of management theory in terms of what they described as the "fact-value antinomy," Eastman and Bailey (1998) have identified the rise of value-partisan approaches in theory in the late 20th century. While they correctly identified the polarization of theory around different sets of values, they perhaps underestimated the extent to which the "Chicago agenda" has gradually crept into all the different disciplines—an observation that has also been made by Donaldson (1990). Nietzche distinguished between scholars and scholarly laborers; increasingly most of us serve the latter role, carrying the ideology-based gloomy vision from field to field, and from applied area to applied area.

Combine ideology-based gloomy vision with the process of self-fulfilling prophecy and it is easy to see how theories can induce some of the management behaviors and their associated problems we have witnessed. Consider, for example, the case of transaction cost economics to which I referred at

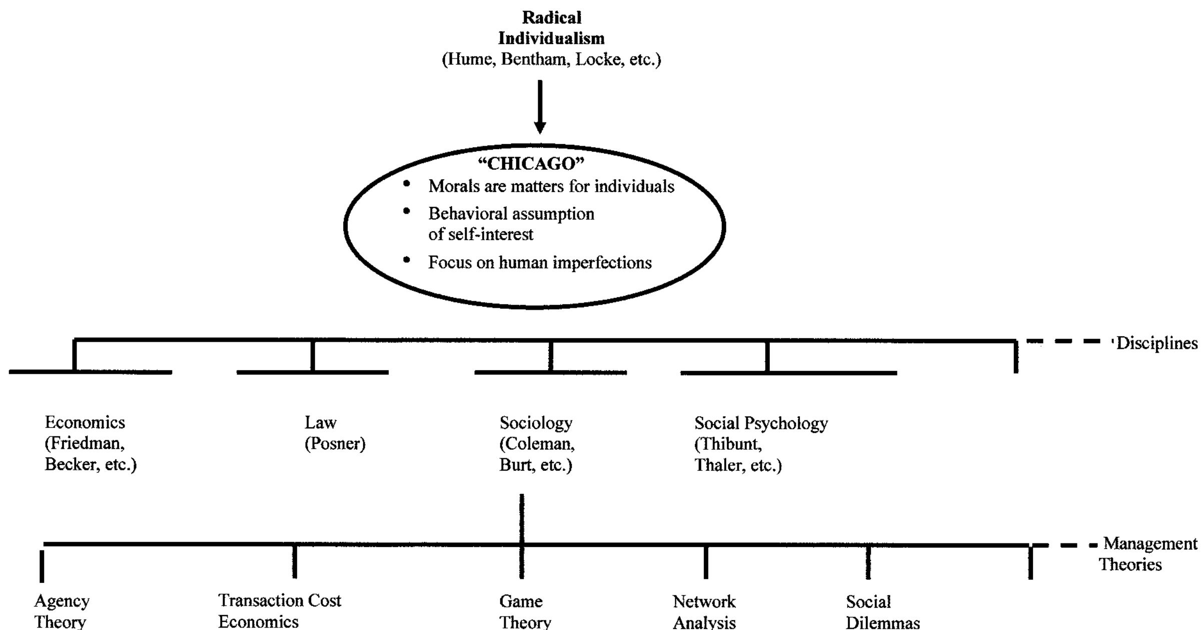

FIGURE 3
The Creeping Spread of an Ideology in Management-Related Theories

the beginning of this article. Oliver Williamson (1975), the most ardent champion of this theory, started from the Friedman position: Some people are opportunistic—not just self-interested, but worse. They make promises knowing full well that, should the benefits from breaking them exceed the costs, they would do so in an instant. They lie and cheat. While most people may not be like that, some are, and it is not possible to separate, ex-ante, those who are from those who are not. The "negative problem" this theory then focuses on is how organizations need to be managed so as to prevent these "bad" people from doing harm to others.

What follows from the theory is quite straightforward. The manager's task is to use hierarchical authority to prevent the opportunists from benefiting at the cost of others. To ensure effective coordination, managers must know what everyone ought to be doing, give them strict instructions to do those things, and use their ability to monitor and control and to reward and punish to ensure that everyone does what he or she is told to do. This is the exercise of "fiat."

What is the outcome of such a management approach? It is likely to be—and there is significant evidence that it indeed is—exactly the opposite of what Williamson's theory predicts: Instead of controlling and reducing opportunistic behavior of people, it is likely to actually create and enhance such behaviors (Ghoshal & Moran, 1996).

For managers, the net consequence of adopting Williamson's advice is what Strickland (1958) has described as "the dilemma of the supervisor": The situation when the use of surveillance, monitoring, and authority leads to management's distrust of employees and perception of an increased need for more surveillance and control. Because all behavior is seen by managers as motivated by the controls in place, they develop a jaundiced view of their people.

For the employees, the use of hierarchical controls signals that they are neither trusted nor trustworthy to behave appropriately without such controls. Surveillance that is perceived as controlling threatens peoples' personal sense of autonomy and decreases their intrinsic motivation. It damages their self-perception. One of the likely consequences of eroding attitudes is a shift from consummate and voluntary cooperation to perfunctory compliance.

The outcome of these negative feelings of both managers and employees is a pathological spiraling relationship, which has been described by psychologists Michael Enzle and Samuel Anderson (1993) as follows:

> Surveillants come to distrust their targets as a result of their own surveillance and targets in fact become unmotivated and untrustworthy. The target is now demonstrably untrustworthy and requires more intensive surveillance, and the increased surveillance further damages the target. Trust and trustworthiness both deteriorate.

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 now very familiar in practice: the ruthlessly hard-driving, strictly top-down, command-and-control focused, shareholder-value-obsessed, win-at-any-cost business leader of which Scott Paper's "Chainsaw" Al Dunlap and Tyco's Dennis Kozlowski are only the most extreme examples. This is what Isaiah Berlin implied when he wrote about absurdities in theory leading to dehumanization of practice.

"As there is a degree of depravity in mankind which requires a certain degree of circumspection and distrust, so there are other qualities in human nature which justify a certain portion of esteem and confidence," wrote James Madison in the *Federalist Papers* (No. 55). What would happen if we acknowledged this complexity of human nature in our theories, this combination of good and evil, instead of focusing only on Friedman's "negative problem"? What would happen if we acknowledged the existence of other and process-regarding preferences, together with the self-regarding ones, in our assumptions about human nature? It would vastly change our theory.

The good news is that the endeavor appears to have already commenced. In the field of psychology, Martin Seligman—in his capacity as the president of the American Psychological Association in 1998—sponsored a new initiative that he referred to as *positive psychology*. Seligman argued that since World War II, research in psychology had been grounded in what he described as "a disease model of human nature." Human beings were seen as "flawed and fragile, casualties of cruel environments or bad genetics, and if not in denial then at best in recovery." Indeed, for psychologists, anything positive about people—hope, optimism, altruism, courage, joy, and fulfillment—had become suspect. While this focus on pathologies had produced important progress in understanding, treating, and preventing psychological discords, Seligman argued that the progress had come at some significant costs. It neglected human strengths and ignored what could go right with people (Peterson & Seligman, 2003).

Positive psychology, as framed by Seligman and his associates, proposes that it is time to correct this imbalance and to challenge the pervasive assumptions of the disease model. "Positive psychology calls for as much focus on strength as on weakness, as much interest in building the best things in life as in repairing the worst, and as much attention to fulfilling the lives of healthy people as to healing the wounds of the distressed."

In the field of economics, too, such an endeavor appears to be in progress as evidenced, for example, by the Conference on Economics, Values and Organization that took place at Yale University in April, 1996. The collected volume of conference papers, together with a foreword by Amartya Sen and an epilogue by Douglass North, explores "the two-way interaction between economic arrangements or institutions and preferences, including those regarding social status, the well-being of others, and ethical principles" (Ben-Ner & Putterman, 1998). As the volume editors argue, the time has arrived "when the questions of values and institutions can begin to be attacked using available and emerging analytical tools, without loss of rigour, but with much gain in relevance and generality."

Not only in the fields of psychology and economics is the dominance of the "negative problem" being challenged. In December, 2001, under the championship of Kim Cameron, Jane Dutton, and Robert Quinn, a conference was held at the University of Michigan Business School entitled "Positive Organizational Scholarship." As these scholars described in the edited volume of the conference papers (Cameron, Dutton, & Quinn, 2003),

> Positive Organizational Scholarship (POS) is concerned primarily with the study of especially positive outcomes, processes and attributes of organizations and their members. POS does not represent a single theory, but it focuses on dynamics that are typically described by words such as *excellence, thriving, flourishing, abundance, resilience,* or *virtuousness*" (emphasis in original).

With contributions from 38 well-known academics from diverse disciplines and a wide range of institutions, this conference and the edited volume clearly represent a major step forward in reversing the trend by rebuilding a balance between positive and negative assumptions in the analysis of business-, organization-, and management-related issues.

But these are, as yet, the nascent efforts of a few. The mainstream of management theory is still dominated by the gloomy vision—indeed, if anything, the dominance is becoming stronger as the intellectual influence of the "Chicago agenda" is spreading to all the main areas of business school research. The positive perspective will not progress unless many scholars, including younger scholars, redirect their work, at considerable risk to their careers. For them to take such risks, much has to be done by many so as to reverse the overall trend of the last 50 years.

REVERSING THE TREND

Kurt Lewin argued that "nothing is as practical as a good theory" (1945: 129). The obverse is also true: Nothing is as dangerous as a bad theory. I have so far developed the proposition that bad management theories are, at present, destroying good management practices. I have traced the source of the "badness" to two trends that have powerfully influenced the nature of business school-based research over several decades. On the one hand, what Clegg and Ross-Smith (2003) have described as "the hubris of physics envy" has led us to increasingly adopt a narrow version of positivism together with relatively unsophisticated scientific methods to develop causal and testable theories. On the other hand, the growing dominance of a particular ideology has focused us on solving the "negative problem" of containing the costs of human imperfections. These two features of our research, combined with the process of double hermeneutic, have led to our pessimism becoming a self-fulfilling prophecy.

I must emphasize, however, that by this analysis I do not at all intend to imply either that we should abandon the effort to develop systematic theory in the field of management or that we should not study some of the more distasteful aspects of individual and organizational behavior. My distinction between good and bad theory must not be taken to mean that the normative implications of a theory stand in isolation of its positive merits. A theory must illuminate and explain and, if it cannot do those things, it is not a theory—neither good nor bad. Wishes and hopes are not theory. Sermons and preaching are not theory either.

But the trouble with the social sciences is that the logic of falsification, which is so very essential for the epistemology of positivism, is very hard to apply with any degree of rigor and ruthlessness in the domain of social theories. Typically, no theory—which are all, by definition, partial—explains a "phenomenon of organized complexity" fully, and many different and mutually inconsistent theories explain the same phenomenon, often to very similar extents. As a result, nothing can be weeded

out nor, given the very different framings, can anything be combined with anything else, except in a very synthetic and ad hoc manner.

The choice among theories, then, falls very much on a scholar's personal preferences rather than on either the discipline of empirical estimation or the rigor of formal, deductive logic. Combined with the possibility of self-fulfilling prophecy, it is this ambiguity that, in the social sciences, gives life to the distinction between good and bad theories.

Excessive truth-claims based on extreme assumptions and partial analysis of complex phenomena can be bad even when they are not altogether wrong. In essence, social scientists carry an even greater social and moral responsibility than those who work in the physical sciences because, if they hide ideology in the pretense of science, they can cause much more harm.

In essence, social scientists carry an even greater social and moral responsibility than those who work in the physical sciences because, if they hide ideology in the pretense of science, they can cause much more harm.

My contention here is that this is precisely what business school academics have done over the last 30 years.

Similarly, the criticism of negative assumptions does not in any way relate to what theorists choose to study or the conclusions they arrive at; I am not suggesting that business school academics should restrict themselves in any way from the spirit of free enquiry. My concern relates only to the practice of considering the premises as basic assumptions—often not even explicitly stated—instead of treating them as testable propositions. By treating them as assumptions, theorists exempt their own ideological biases from the need for either theoretical justification or empirical validation, and yet the same assumptions, through the self-fulfilling process of the double hermeneutic, influence the social and moral behaviors of people.

The ultimate goal must be to go from the pretense to the substance of knowledge. Physicists continue to seek a unifying grand theory that would combine both the particle and the wave nature of light. We too must seek the same with regard to the different and contradictory facets of human nature and organizational behavior. But, just as such a grand unification has eluded physics so far, so it is likely to elude us for a long time. In the meantime, just as physics has continued to make progress by independently investigating both the characters of light, so too must we make progress on both the negative and the positive problems described by Friedman. My contention is that the pretense of knowledge has led us to increasingly focus on only the negative problem as a result of which we have made little analytical progress in the last 30 years on the positive problem, at considerable cost to our students, to companies, and to society. I also suggest that to address the positive problem, we need to temper the pretense of knowledge and reengage with the scholarships of integration, application, and pedagogy to build management theories that are broader and richer than the reductionist and partial theories we have been developing over the last 30 years.

Ultimately if the trend in management theory is to be reversed, only business school academics can do so. This is not going to be easy. The nature of the academic process naturally favors building on the existing edifice of theory instead of starting over, on fresh ground. The currently dominant theories have so much commitment vested in them that the temptation of most scholars would be to incrementally adapt these theories, if and as necessary, rather than to start afresh on the more positive agenda.

The barriers to a fresh start are almost too high (Pfeffer & Fong, 2002). All the way from the structure of PhD training to the requirements for publishing in top journals, from the criteria of faculty recruitment to the processes for granting tenure, the institutional structures within and around business schools are rigidly built around the dominant model. Yet, if we are to have an influence in building a better world for the future, adapting the pessimistic, deterministic theories will not get us there. If we really wish to reinstitute ethical or moral concerns in the practice of management, we have to first reinstitute them in our mainstream theory. If we wish our students to contribute to building what Warren Bennis (2000) has described as "delightful organizations," we will have to teach them the theories that describe how they can do so. In spite of all the individual and institutional pressures that drive us to paradigmatic conformity, as both researchers and teachers we have to define and adopt a different path.

Thomas Kuhn (1962) was right in arguing that mere disconfirmation or challenge never dislodges a dominant paradigm; only a better alternative does. It would not, therefore, be entirely inappropriate to dismiss my concerns as an irrelevant rant because I present no such alternative (although, together with colleagues, I have tried to present

some modest proposals elsewhere—see, e.g., Nahapiet & Ghoshal, 1998; Moran & Ghoshal, 1999; and Ghoshal, Bartlett, & Moran, 1999). I suggest, however, that such an alternative theory can only emerge from the collective efforts of many, and that the first step in stimulating that collective effort lies in reshaping the structure and context within which business school faculty work. The current paradigm is deeply embedded in the context that surrounds us; for a significant shift in our priorities, some significant support, resources, and reassurances are needed to change that context (Pfeffer & Fong, 2002; Friga, Bettis, & Sullivan, 2003).

In part, this support must come from the leadership of business schools. If deans really intend to infuse a concern for ethics and for responsible management in the research and teaching that are carried out in their institutions, they have to acknowledge that the tokenism of adding a course on ethics will not achieve their goals. As long as all the other courses continue as they are, a single, stand-alone course on corporate social responsibility will not change the situation in any way. Deans have to take leadership—perhaps even at the cost of some displeasure of some of the senior faculty who are most embedded in the currently dominant perspective—in adapting the recruitment and promotion processes in their schools. To the extent that they have any discretion over research and other resources, they have to allocate a part of those resources for building the positive agenda, not only in creating courses on ethics and corporate social responsibilities, but also for supporting a broader range of scholarship in the traditional fields of strategy, organization behavior, marketing, and others—perhaps even in economics and finance.

The task is not one of delegitimizing existing research approaches, but one of relegitimizing pluralism (Clegg & Ross-Smith, 2003). The ideology that Milton Friedman described as "liberalism" is yet another manifestation of the enduring human quest for utopia. The problem with any version of utopia is that the concept itself fails to recognize the dilemmas that are posed because of the conflicts among different desired values and preferences, and among different desired outcomes. The only alternative to any form of ideological absolutism lies in intellectual pluralism, which is likely to lead both to better research (Weick, 1989) and to broadened usefulness (Lawrence, 1992). As I have argued earlier in this article, the social sciences, in general, and business schools, in particular, have lost their taste for pluralism—as would be manifest to any reader of this article who has participated in a tenure committee meeting. The challenge for the deans is to reinstate this taste—not only in terms of theory and methodology but also in terms of what research questions are asked and where the answers are published.

As a business school academic, I have always staunchly believed that the role of the governors of a school should be strictly limited to fund-raising and ceremonial activities. In particular, I could never conceive of advocating a role of the governing board that would even remotely touch on the sanctity of academic freedom. But I do not feel so sure any more. I believe that as academics, we may have been guilty of overexploiting our freedom.

I believe that as academics, we may have been guilty of overexploiting our freedom.

In the desire to create and protect the pretense of knowledge—in our venture to make business studies a science—we may have gone too far in ignoring the consequences not only for our students but also for society. Given the almost absolute power that particularly those of us in the tenured faculty have over all academic matters, a powerful countervailing force would be necessary for any significant redirection in our research and teaching. Perhaps the boards of governors of the different schools represent the only possible source of such a countervailing force.

For most business schools, the governing board—by whatever name—represents perhaps the worst caricature of ineffective corporate boards. Most members are irregular in their attendance; those who attend tend to see the board meetings as essentially social occasions. The actual realities of the school are rarely revealed in the board meetings. The agenda typically focuses on fund-raising, external relations, or on vacuous vision statements and the like.

Perhaps business school governors need to get more involved in ensuring that the external rhetoric of the institutions are actually reflected in their internal decisions and choices. This does not mean that the governors should set the research or teaching agenda for individual faculty or departments nor that they should have a direct influence on academic recruitment or promotion processes. I am not suggesting that they play the policing role that agency theory reserves for members of corporate boards. The role I see business school governors play is more one of stewardship—involved, sup-

porting, and challenging rather than detached and controlling. As senior representatives of the external (and, sometimes, internal) communities business schools serve, they can forcefully bring in different perspectives and external information into the highly insular world of business school faculty. Given the extremely limited influence of students, staff, and other groups directly connected with business schools, it is only the governors who may have the legitimacy and power to challenge the dominant dogma with disconfirming information and perspective, and thereby to strengthen the hands of the deans.

Companies and managers at large can also get into the act. After all, the venture of making business studies a science has made the progress it has only because of the significant amount of resources business schools have received through corporate and individual gifts. Without the slack created by generous endowments, business school academics would not have been able to separate their research from the practical needs of their students or the positive needs of society quite as completely as many have done. If managers care about the conduct of their companies and about the legitimacy of their own roles in society—which is clearly a major issue in most countries around the world—perhaps they need to become a bit more discerning about their giving. Both as individuals and collectively, business school alumni and corporate leaders can exert significant pressures to realign the perspectives and priorities of the institutions they support.

Institutions such as the Academy of Management will also have to play a key role. While the leaders of the Academy have duly expressed their concerns about the corporate scandals, they can do much more to create a new intellectual agenda that would support James Coleman's (1992) vision of the social sciences providing actual help in what he described as "the rational reconstruction of society." Martin Seligman, through his actions in the American Psychological Association, has already shown what some of these actions can be. The Academy can create a steering committee of senior people to lead the endeavor and provide "air cover" for the junior faculty who choose to join in. Leaders of the Academy can ensure that all the Academy journals dedicate special issues to legitimize the new intellectual agenda. Indeed, perhaps they can make this topic the core theme of a forthcoming annual meeting so as to include the collective wisdom of all members in shaping the journey ahead.

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