Edited by ALBERT ERISMAN and DAVID GAUTSCHI

THE PURPOSE OF BUSINESS

Contemporary Perspectives from Different Walks of Life

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To the fellows of the Consortium on the Purpose of Business with gratitude for their unstinting commitment to participating, listening, and expanding the discourse on the role of business in society and on the role of the business school in the university

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Preface: The Consortium on the Purpose of Business

This volume is an outcome of a project that began in Fontainebleau, France, in 2009. From the beginning, we endeavored to assemble a small group of thinking executives, academics, senior military officers, political/governmental representatives, artists and musicians, and members of faith communities to engage in protracted discussion on the role and responsibility of business enterprise in the evolving global society.

We have not been interested in producing consensus—rather we have been interested in evoking different perspectives and, possibly, conflicting views so that they may be considered, studied, and disseminated over time. We have been particularly interested in addressing the interactions of market systems, science and technological progress, state policy decisions, and institutions that, through their interaction, combine to define contexts in which business is conducted. The papers presented at each meeting did not impose normative answers, but served to provoke discussion and critical response.

We convened the expanding and progressively diverse group, committed to producing useful dialogue, and adapted the ideas and suggestions that have followed from the sessions in order to sustain the dialogue over the past five years. The activity of each meeting entailed three parts: presentation of position papers, plenary discussion sessions, and work in small study groups. One unscripted aspect of the meetings, which has proved to be exceptionally rich and valuable, has been the discourse among the participants over meals. These discussions have proved to be as significant to the participants as anything we may have scripted into the programs. The formal presentations and scripted discussions spawned these human interactions, and the meals fueled expression. This volume includes some of the formal presentations and scripted discussions from various meetings, and we hope that they may inspire discussion among formal, as well as ad hoc groups of readers. (In any case, we recommend a nice shared meal to encourage conversation.)

The organizing questions of the Consortium can be simply stated as follows:

- What is the purpose of business in the world?
- What is the purpose of the business school within the academy?
- How do these purposes connect?

Were these questions only put before business audiences or only before audiences in the Western industrialized cultures, we suspect that the ensuing discourse would have been as perfunctory as it might have been shallow. The diversity of the assembled fellows—in terms of profession as well as culture—made the mixture of vantage points of humanity the leitmotif of this project. Consortium Fellows come from Africa, Asia, Europe, and both North and South America. While the details of the theory and practice of business differ in these various parts of the world, common themes have emerged for both the challenges and the promise of business. Papers, panels, drama, culture, and tours combined to stimulate thought and discussion within this fluid global gathering that has left an imprint on its participants—the Consortium is the virtual place for this "Hemmingwayesque" movable feast!

For this volume we have drawn on several different styles to document a subset of ideas and perspectives expressed in various meetings of the Consortium that we now intend to share with a wider audience.

Part I of the book provides perspectives on the central theme of the Consortium—The Purpose of Business and the Business School—and includes a mix of formal presentations and discussions. While each contributor approaches the subject from different cultural, religious, and economic assumptions, they demonstrate a remarkably broad agreement both on the opportunities for business and the current challenges. The papers range from academic presentations to an interview with one of the panelists who put into practice some of the nonconventional ideas.

Part II considers three external forces that provide a context for business in the twenty-first century. First is an understanding of the global context of business in a sweeping analysis by Jonathan Story. Geopolitical issues are crucial to the increasingly global nature of business both in the present and in the future, and Story demonstrates not just the complexity from a cross-sectional analysis at a point in time but argues that one must prepare oneself to anticipate the dynamics of forces and trends. Religion is a second external force in business. Much of modern capitalism is rooted in the work of Adam Smith, a moral philosopher of the late eighteenth century. Participation in the Consortium has included those from multiple faith communities, and Father Patrick Ryan, a Jesuit priest, offers a historical analysis of enduring religious influences on business practices from ancient Eastern Mediterranean cultures. We also have included four essays previously published in *Ethix* magazine that offer contemporary perspectives of business from Buddhist, Christian, Muslim, and Jewish traditions. The third and final segment of this section addresses the critical role of energy as an influence on business, particularly in a global context. Story outlines the shaping influences of energy availability and sources on business.

In Part III we look at the way the human mind affects business. Economic theory generally assumes that people are fully rational actors, always doing what is in their own best interests. History shows us otherwise, and a better understanding of neuroscience confirms this. The first contribution is an article by Hersh Sheffrin, one of the founders of the growing field of behavioral economics. His insight into the influence of human behavior, particularly in a business setting, helps us challenge some of our basic assumptions about the practice of business. The second is an interview with John Medina, conducted before his presentation at the meeting but updated after. He is a brain scientist and author of the best-selling book *Brain Rules*. Conducting business between people must account for their brains, and Medina neatly outlines a series of scientific results that matter for understanding how people relate to each other in business.

Part IV contains two reflective pieces on geopolitics and art. Adriana and Fabián Fábrega, entrepreneurs from Argentina, offer delightful insights on the cultural influences on business in Istanbul that captures the spirit of the Consortium meeting held there. Indira Parikh from Pune, India, responds to a variety of Consortium meetings, especially the meeting that addressed business and art.

The material included in this book is neither complete nor fully representative of the work of the Consortium. However, it represents important perspectives on the topics of the role of business in society, the role of the business school in the academy, and the links between the study of business and the practice of business. Perhaps the clearest message we have gathered from observing the interactions at the meetings over the past five years is this:

Hopeful discourse on the role of business in society must continue and must expand to involve representatives of all facets of the contemporary global society.

Albert Erisman
Executive in Residence, Seattle Pacific University

Editor, *Ethix* Magazine
Director of R&D in Technology and Mathematics, Boeing (retired)

David Gautschi
Dean *emeritus* and Joseph Keating, S.J. Professor
Fordham University

September 2014

Acknowledgments

Several people have been instrumental in helping to make the Consortium meetings happen and to provide significant assistance in staging the meetings. At two institutions, Rensselaer Polytechnic Institute and Fordham University, Elizabeth Barrett has provided steadfast expertise in project and event planning, as well as simply good judgment. In fact, I cannot imagine how we would have conducted any of the meetings without her vision, her organized manner, and her patience with her disorganized boss (me). She was ably assisted by Noelle Zandri, Liza Wynns, Felicity Crew, and Laura Spagnoletti. Jean Howard was an inspirational and instrumental contributor to the conception and organization of the Consortium meeting on business and energy.

I reserve special thanks for two friends and colleagues who have been as gracious as they have been constructive in their contributions to this project: Al Erisman and Jonathan Story. Without their collaboration, I cannot imagine how we would have been able to accomplish what we did—assembling over 100 fellows from diverse backgrounds who were willing to take on the risk of diving into this uncertain endeavor.

To all of those who have assisted in their special ways to make this project possible, I am deeply grateful.

David Gautschi

To be very clear, David Gautschi spearheaded this project. The idea of the Consortium was his. He was able to secure funding to make the meetings possible, largely from the two institutions he served over this period: Rensselaer Polytechnic Institute and Fordham University. We are both grateful to these institutions for their support. David was able to motivate and inspire his friends and colleagues, and in turn their friends and colleagues, to participate. Their participation and the deep conversations that took place represented the heart of the Consortium. I was happy to be counted as one of those friends and colleagues. What is captured in this book represents only a part

of the ideas that fueled discussion at the various events. There is no way to fully capture the conversation, the numerous participative demonstrations (particularly the music and drama from Business and the Arts in New York), or the relationships that developed. It is my hope that the papers and presentations compiled here will inspire further discussion in this rapidly changing world of business.

Albert Erisman

Consortium Locations and Country Attendees

Meetings

Fontainebleau, France, Centre Européen D'Education Permanente (CEDEP), February 2009: *Technology and Business*

Wolfsberg, Switzerland, UBS Executive Centre, November 2009: The *Future of Business and the Role of the Media*

New York City, Fordham University, November 2010: *What is the Purpose of the Business School?*

Istanbul, Koç University, April 2011: *Business and Geopolitics*

Seattle, Seattle Pacific University, August 2011: *Business and Neuroscience*

New York City, Fordham University, October 2011: *Business and Art*

New York City, Fordham University, September 2012: *Business and Health*

Westchester, New York, Fordham University, October 2013: *Business and Energy*

Countries Represented by the Participants

1. Argentina
2. Austria
3. Belgium
4. Brazil
5. Cameroon
6. Canada
7. Chile
8. China
9. France
10. Germany
11. Guatemala
12. India

13. Israel
14. Korea
15. Nepal
16. Nigeria
17. Pakistan
18. Serbia
19. South Africa
20. Spain
21. Switzerland
22. Thailand
23. Tunisia
24. Turkey
25. United Kingdom
26. United States
27. Zambia

PART I

The Purpose of Business and the Business School

CHAPTER 1

The Business School: Serving Mammon or the University

David Gautschi and Jonathan Story

Confusion in the Hallowed Halls—The Evolution of Business Schools and Business Context

Two events at a distance of nearly half a century illustrate the relationship between business schools and context. On October 4, 1957, the Soviet Union announced, and governments around the world confirmed, that it had succeeded in putting an artificial satellite into low Earth orbit. The United States was so shocked that then president Eisenhower formalized this surprise and its possible consequences as the Sputnik Crisis. Within the year, the US Congress passed the National Defense Education Act, providing funding to US education at all levels, in response to a prevailing sense that US science, engineering, and mathematics were at risk of falling behind in the all-encompassing contest with the Soviet Union. Galvanizing business schools was part of this broader package.

On September 15, 2008, the US federal government chose to induce a large investment bank, Lehmann Brothers, to file for bankruptcy. There had been some forewarning from the fitful adjustments to the so-called Sub-Prime Crisis of 2007 and the distressed sale of Bear Stearns to J. P. Morgan Chase one weekend in March 2008. There were also premonitions of recession related to the excessive imbalances in the world economy, the length of the preceding boom, and the violence of a series of country and corporate crashes in the preceding years. Yet when the systemic crash came, and global financial markets experienced by analogy what amounted to collective heart failure, it came as a near total surprise.

The original version of this chapter was revised. An erratum can be found at http://dx.doi.org/10.1057/9781137503244_14

Response to the two crises could scarcely be more divergent. The response to the Sputnik Crisis was for the United States to invest heavily in the physical and social sciences, the one to demonstrate US capabilities and the other to produce reasoned solutions to social problems. In the intervening years, departments of economics and the social sciences have flourished in the university. But in 2009, the US Congress was in no mood to pass a National Defense Business and Finance Education Act to respond to the Global Financial Crisis. Rather, university departments of economics and business schools were seen as part of the problem. As Robert Salomon from the Stern School, New York, writes on his blog, business schools are good at training technicians, but not good at training analysts who cross "disciplinary boundaries to create a greater understanding . . . for how individual parts interrelate to affect the whole."[1]

Just as the Sputnik Crisis of October 1957 swept away America's sense of invulnerability to nuclear attack, the crisis of September 2008 shattered reigning assumptions about the way markets work, while exposing how precarious the security of individuals could be in the face of a financial tsunami. As of February 2009, participants and observers of all kinds were peering at a protracted bear market that seemed to have ominous parallels to the bear market of 1929–1932. (See figure 1.1). Fear gripped market participants, regulators, and private citizens. What had caused the crash, people asked? Were we on

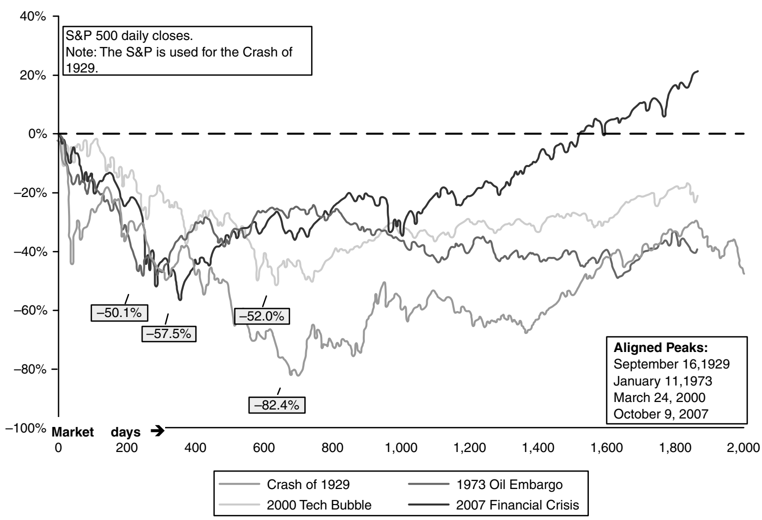

Figure 1.1 Four Bad Bears Adjusted for Inflation

Source: Advisor Perspectives, Inc. © 2014.

track to a new Great Depression? What measures should be taken to halt the downward spiral?

There had been some signals that we were moving into uncharted waters. But in retrospect it is clear that there was no agreement as to whether market signals indicated that we had moved into a new virtual economy, where the old rules of the game no longer held, or whether we were living through an unprecedented expansion of the global market but without adequate equipment to assess the fast-moving global scene. Definitely, the familiar indicators of economic activity were registering that the general context of business had evolved dramatically over the past 50 years. Figure 1.2 depicts the S&P 500 Index from 1955 to the end of 2010. The index is a window on collective views of the future—as stock prices may be defined as expected discounted cash flows divided by the number of shares outstanding. Both expectations and discount rates are functions of what decision makers think the future will hold. The steep gradient of the index during the 1990s projected a robust optimism about the future. In contrast, the extraordinary fluctuation of the index during just the past ten years reveals pronounced uncertainty about the future.

Similarly, the collapse of the former communist system, the rapid entry to world markets of China, India, and the various republics from the former

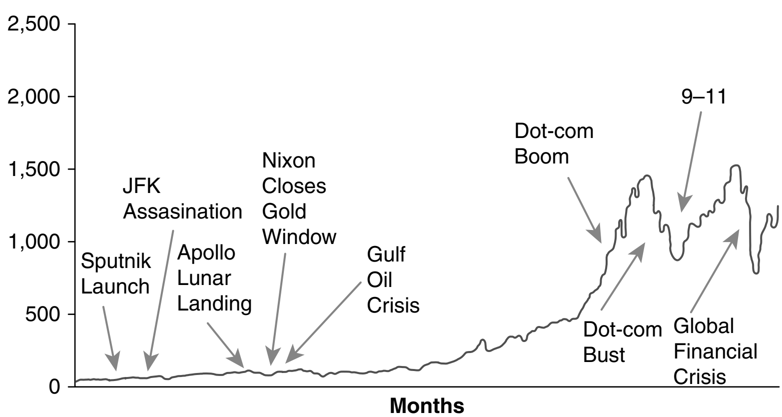

Figure 1.2 Events and Expectations S&P 500 Index, June 1955 to December 2010

N.B. This figure is derived from historical S&P 500 index data. S&P 500 index is proprietary to and is calculated, distributed, and marketed by S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC), its affiliates, and/or its licensors and has been licensed for use. S&P®and S&P500®, among other famous marks, are registered trademarks of Standard and Poor's Financial Services LLC, and Dow Jones®is a registered trademark of Dow Jones Trademark Holdings LLC.

Soviet sphere of influence, and the partial spread of market-democratic institutions from the United States and the European Union prompted widely different interpretations of the way the world was heading. The prevailing mood of the two decades and more was that humanity faced unprecedented opportunity to create an inclusive global polity and economy beyond hegemony and imperial rule. Perhaps an unintended consequence of this optimism was that developed and emerging economies alike became prone to heightened risk-taking, as it was presumed that the instruments of the state would provide protections for private interest at a level not provided before. Greater risk-taking in the context of such globally linked economies and interests announced both greater expected gain and greater uncertainty.

Whatever the background to and the causes of the crash were, we contend that one contributing factor has been the tunnel vision of business schools in their focus on teaching "how to" tools, at the expense of the larger question of the purpose and societal value of the business school. To motivate a consideration in response to this larger question, it may be useful to ponder on, although difficult to test, the following hypothesis: The financial crisis produced during the first decade of the twenty-first century would not have occurred had more participants to financial transactions been more financially literate.

The hypothesis is useful because it may suggest that in a world in which the institutions of contemporary finance are so pervasive and powerful, not all of those who engage in financial transactions are adequately apprised of the assumptions of the theories and models they have been taught, aware of the products they might be buying or selling, or alerted to the consequences of the decisions they are taking. Those who were ensnared in the crisis of financial transactions include both members of households as well as the captains of industry. As Chuck Prince, then CEO of Citigroup, was quoted as saying, "As long as the music is playing, you've got to get up and dance. We're still dancing."[2] This assertion came after Kenneth Lewis, then CEO of Bank of America, had explained to Bloomberg in July 2007: "We . . . are starting to say 'no' (to leveraged loans) more than we were before. And it's not because we're out of money . . . " As subsequent events and revelations have cast doubts about the command such executives may have been able to exercise over their enterprises, we ask how business schools may prepare future executives to gain command.

The wrath directed at one element of business school faculty and the profession they serve, namely finance, cannot be ignored. In fact, the wrath responds as much to instances of blatant malfeasance and fraud in practice (e.g. Madoff), to the sanctioning of greed as a desirable characteristic of the person in business (e.g. Lewis, *The Big Short*[3]), as to the calcifying, doctrinaire postures of segments of the fields of finance and, particularly, financial economics.

There are two clear challenges facing the business school in preparing future executives. The first is that business has never succeeded in establishing an agreed deontology, whereby an action may be judged by its adherence to an agreed rule of ethics.[4] This may seem surprising if we consider the academic rationale for a business school in service to business in terms of first principles: understanding enterprise, understanding markets, and understanding how enterprises interact with markets.[5] But if we place the institution of firms and markets in the turbulent context of the history and evolution of human affairs, the task becomes unavoidably complex, not least because the boundaries of the subject remain wide open to constant revision and challenge.

The second challenge facing top executives is to steer their enterprises through complexity. We argue here that business schools should take a leaf from Herbert Simon's suggestion that business operates not according to absolute criteria of perfect information, but according to a "bounded rationality," whereby human rationality is fashioned by the information acquired, the cognitive limitations of the human mind, and the finite amount of time available to make decisions. Given the inherent imperfection of human cognition, it follows that business schools exist, in Alfred North Whitehead's definition of universities in 1928, to inspire imaginative thought, resisting the pedantic comfort of inert ideas and continuously battling the forces of mediocrity.[6]

Because business enterprises occupy such a salient place in human affairs, the schools that serve them cannot avoid being, indeed we argue they should aspire to be, centers of controversy and not just sources of skills for the service of the community. It is this schizophrenia, as purveyors of supposedly objective knowledge and vortexes of passionate debate, that inhabits business schools and is the clue to making them great. In developing this argument, we trace in stylized form the interactions between context and schools over the last century and more and round off our discussion with some suggestions on building the global context into the heart of business school scholarship.

The need to advance understanding of the evolution of business context and its global character, in particular, is accentuated by a rather unsettling level of ignorance about institutional influences. For example, US senator Bernie Sanders responded on November 9, 2010, to the publication of the detailed report of the US Federal Reserve Bank delineating its support of both US and non-US banks in conjunction with its efforts to contain the disintegration of the banking system, "Has the Federal Reserve become the Central

Bank of the world?" An effective response to Senator Sanders's question would be "de facto, yes, but it became so several decades ago."[7]

Where Are We Now?

We sketch very briefly three periods in the development of business schools in order to illustrate their changing context, and how this context was reflected in the content taught by them. The three periods may be categorized in the following way: from 1881 to 1940, when states took a back seat to markets; from 1940 to the mid-1970s, when big government and big business both subscribed to the assumptions of managerialism; and from 1971 to the present, when the phenomenon called globalization took hold.

Era 1: 1881–1940—The Ascendance of Markets as Justification for the Conduct of Business

The establishment of the first university-based business schools was driven in large part by self-styled progressives who sought effective regulation of business, a revived commitment to public service, an expansion of the scope of government, and a curbing of social conflict through "scientific management."[8] The authority of science, superseding but borrowing from the authority of the Scriptures, was to be applied to the pursuit of social progress.[9] Bringing business schools into the university would help to legitimize business. This was the spirit informing the founding in 1916 of the American Assembly of Collegiate Schools of Business (AACSB). From the start, the practical problem to solve was whether university-based business schools, in the words of Harvard Business School (HBS) assistant dean C. P. Biddle, train "hands" or "educate heads."[10] At the time, the bias among those business leaders supportive of the concept of business as a profession, as against a simple money-earning activity, tilted decidedly in favor of training heads about the social responsibility of managers. As Owen D. Young, chairman of General Electric (GE) and international business statesman, clearly stated in his address at the dedication of the new group of buildings comprising the George F. Baker Foundation for the Graduate School of Business Administration at Harvard, America's business leaders had to be "not only highly skilled in history, politics and economics . . . but men who have also that moral and religious training which tends to develop character."[11] Young went on, in the biblical language of liberal Protestantism,

> it is the trust of Harvard to maintain and from which may be renewed through generation after generation the high ideals, the sound principles, the glorious

> tradition, which makes a profession. Today and here business formally assumes the obligations of a profession, which means responsible action as a group, devotion to its own ideals, the creation of its own codes, the capacity for its honors, and the responsibility for its own discipline, the awards of its own service.[12]

Striving for an ideal of a rounded manager was the declared ambition. Implementation, as Young implied in his speech, lay ahead, and there was much to be done. The typical course requirement for 34 AACSB schools in 1928 included the following: accounting, financial organization, managerial finance, elementary economic theory, advanced economic theory, markets, English, a foreign language, law, government, mathematics, statistics, science, geography, general business organization, and so on, down to philosophy.[13] Not surprisingly, by 1941, when the United States entered World War II, a business degree was still a poor relation in the university, the objective of establishing a profession was still distant, and the content of what was taught was at most an introduction to doing business in the United States.

There were some notable achievements, though. Frederick Taylor's studies in efficiency,[14] for example, were not only adopted by US industry and taught at Harvard, but were also exported, as Stalin, too, was a great admirer of Taylor. Hugo Münsterberg's *Psychology and Industrial Efficiency*[15] was a counterpoint to Taylor and influenced the critique of rapidly industrializing post–Great War America. Perhaps of longer-term influence on business studies was the shift in status between managers and owners in such corporations as the Ford Motor Company, General Motors (GM), GE, or DuPont. In their book, *The Modern Corporation and Private Property*, published in 1932, Adolph A. Berle and Gardiner C. Means argued that dispersed shareholders had yielded actual control of corporate policy to managers.[16] In such corporations, the management process depended heavily on coordination by committee, control inside the corporation over the tiers of managers required by the organization to be run through capital budgeting techniques, and sales depended on the availability of consumer finance to bring the customer to buy. Business, in short, was a collective undertaking.

As World War II unfolded, James Burnham published *The Managerial Revolution: What is Happening to the World.* According to Burnham, "... a new form of exploitive society (which I call 'managerial society') is not only possible but is a more probable outcome of the present than socialism ... "[17] Burnham, originally a militant in the Socialist Workers' Party, became a leading spokesman of the conservative movement in the United States—a precursor of the end-of-century "neo-cons," whose founding members also emerged from the ranks of the anti-Stalinist left.[18] In a comparatively short period of time, which he dated from World War I, a new class of managers had emerged who were driving toward "social dominance, for power and privilege, for the position of the ruling class."[19] Elaborating on Berle and Means's idea of the separation of ownership and control in large corporations, Burnham argued that, regardless of whether ownership was corporate and private or statist and governmental, the essential demarcation between the ruling elite (executives and managers on the one hand, and bureaucrats and functionaries on the other) and the mass of society was not ownership so much as it was *control* of the means of production. This dominance by the new bureaucratic elite over the mode of production was common, he suggested, to the economic formations of Hitler's Germany, Stalin's Russia, and the New Deal of Franklin D. Roosevelt.[20] In short, management was a universal phenomenon.

Era 2: 1940–1971—Managerial Capitalism and Managing a War and Its Aftermath

Burnham's book may be seen as an opening salvo proclaiming the dominance of the managerial ethos that remained unchallenged in business schools for three decades after 1945. Because the concept of managerialism is so central to the evolution of business schools, a number of points about Burnham's argument are worth recording: one is that, despite his abnegation of Marxism, the Marxist structure of his thinking is evident in the concept of one type of society giving way to another.[21] His is also evidently a class analysis. Bureaucrats, like aristocrats and owners before them, are out to maximize the benefits of their positions. Not least, the publication of his book coincided with the rush to Washington, D. C., of leaders from business, finance, and law to lay the foundations for victory in 1945. The rush announced the marriage between big government and big business that laid the basis for the hegemony of managerialism in the decades following Allied victory in 1945. Would the managers be "maximizers" of their own interests, or serve their time in public interest? The ethos of the business school ideal required that they do, and be seen to do, the first.

In the decades following the end of World War II, the world came to be profoundly shaped by US initiatives, the dynamics of capitalism, and the Cold War between the United States and the Soviet Union, their allies, and their ideologies.[22] Belief in the ability of the government to manage highly complex operations[23] had been strengthened by US experience during the war, while the arsenal of tools and many of the agencies from the war years survived into the postwar years. But what was their purpose, and that of the managerial ethos to be? After 1945, and especially as the conflict with the communist powers grew in intensity, America's high living standards and public institutions became a showcase of what could be achieved in a free and open society. Thomas Carroll, vice president in charge of the Ford Foundation's business school program, was quoted as saying in the wake of the Soviet Union's successful launch of the Sputnik in October 1957, the challenge from the Soviet Union's economic and industrial growth "concerns very directly the business leaders in our country . . . and the business, engineering and science educators of our country."[24] Improving the education of business was thus cast as a patriotic duty in the context of the war against socialism at home, and the Soviet system abroad.

The mood was captured by the incoming administration of President Kennedy, who confided the running of the country to "the best and the brightest."[25] The emblematic figure in this galaxy was Robert McNamara, Harvard MBA (1939), assistant professor of accounting at HBS, later president of the Ford Motor Company, and President Kennedy's defense secretary. McNamara was a "quant" trained in economics, familiar over his career with the new techniques of "management science," and eager to incorporate the tools of quantitative analysis and the behavioral sciences into the running of America's great corporations and the federal government. These were the same ideas that a few missionaries operating through the Carnegie and Ford Foundations were determined to inject into business schools. As Herbert Simon, a University of Chicago-trained political scientist and eventually Nobel Prize winner in economics, expressed it, he and his friends formed "a revolutionary cell that would forever reshape business education" that they described as "a wasteland of vocationalism that needed to be transformed into science-based professionalism."[26] James Howell, one of the authors of the Ford Foundation's report, *Higher Education for Business*,[27] is quoted as observing that the report ended up establishing "the educational paradigm that has guided the nation's business schools" to the present.[28]

The intent of the report was to redefine the business school curriculum and research on what its authors considered to be a rigorous and scientific basis, to bring them in line with university graduate studies in law or medicine, and as the way forward to creating a profession of management that could stand comparison with other professions. Here lay the major difference with the ideal of a management profession as envisaged by Owen D. Young in his 1927 speech at Harvard: for Owen, a business leader had to be armed with a moral compass, be steeped in the techniques of business, *and* be knowledgeable about history, politics, and economics. The Gordon–Howell concept of a profession was quite different: it was to make business studies a peer to graduate studies in professional schools. This required a new type of faculty, a reform of the curriculum, and a transformation of doctoral programs.

With the active support of the Ford and Carnegie foundations, business schools rapidly raised the proportion of full-time faculty with doctoral degrees, and the number of scholarly journals with a quantitative bent multiplied as outlets for business school faculty.[29] A curriculum that aspired to professional standards, according to the AACSB, had to be rooted in "the fields of economics, accounting, statistics, business law or legal environment of business, business finance, marketing and management."[30] Doctoral programs for business studies widened their recruitment to attract candidates from other disciplines, such as sociology, psychology, or political science. Harvard's more qualitative, and case-based program, was replaced in the hierarchy of doctoral programs by the quantitative training provided at such schools as Carnegie-Mellon, Stanford, and Chicago.

By the early 1970s, the overall impact of the Ford Foundation on business schools was becoming evident. Faculty were better trained, research was more scholarly, a wider range of disciplines were introduced into business schools, their curricula had become more standardized, and the Harvard case method was being replaced in other schools by more theoretically grounded courses. There were grounds to believe that business schools could begin to measure up to the intellectual rigor associated with postgraduate studies in other subjects incorporated in the university's academic enterprise.

For our purpose, the important point to note is that the Carnegie and Ford foundations' reports on business schools shared in the prevailing optimism about the power of the social sciences to better the world. The mood of hubris was captured in President Kennedy's inaugural speech, which he ended by calling on his fellow citizens to go forth knowing "on earth God's work must truly be our own."[31] But doing God's work on earth proved elusive, and social scientists turned out to be fickle.

Era 3: 1971–2010—The End of Bretton Woods and the Expanding Complexities of Globalization

Two key components of the managerial ethos triumphed in the decades after World War II: management was to serve the public interest, and it was to synthesize disparate strands of the complex of human and material realities. Both came to be challenged, starting sometime in the mid-1960s, by a congeries of developments:

Student movements broke out in the late 1960s around the world, preaching self-fulfillment rather than constraint, sexual liberation rather than continence, and rebellion against authority. Individualism, free love, and free markets were the beneficiaries.

The Japanese and German economies, and their companies, were seen as sweeping to success, compared to the perceived failings in American corporations and public policy. The lesson here was that the United States should act forcefully in pursuit of US national interests on the world scene, as Japan and Germany were perceived to be doing.

Generally, growing numbers of members of society perceived a gap between the promise made on behalf of management and its delivery. Arguably, it was not that managers were boastful, but the exaggerated claims made in the social sciences on management's behalf, peaking to hubris in the late 1950s in the United States under the shadow of the Soviet Union's success in putting the Sputnik into orbit, prompted the backlash.

With the managerial ethos under challenge, two opposing schools of thought emerged within business schools. The *functionalist* school, both deductive from a priori principles and prescriptive for policy choice, is exemplified by such developments as the efficient markets hypothesis, agency theory, and transaction cost analysis. If left to themselves, managers—whether in public or private enterprises, the influential Chicago School of finance argued—are maximizers for their own interests, as Burnham said they were in 1941. The school presumes a degree of universality in the fundamental conditions of enterprise that permits the application of normative rules in finance and business across cultural and political boundaries. By contrast, the *realist* school focuses on doing business in a world as one encounters it: diverse, multiform, complicated by many religions and languages, bearers of their own memories and ideals, and composed of over 200 separate territories at vastly different levels of prosperity, ranging from Singapore to Haiti. The realist school produced the capstone business policy course at HBS (and elsewhere) to focus on policy issues faced by managers. The functionalist school, particularly represented through departments of economics and of finance, came to provide the dominant paradigm of business schools, while business policy was replaced by business strategy, applying Michael Porter's paradigm of competitive strategy, which presumes that the contest among nations is analogous to the contest of business enterprise in markets.[32]

The crucial insight linking the two schools is expressed by Yves Doz and C. K. Prahalad, who write that the dilemma of managers in the world today is to "recognize the balance of the forces of global integration and local responsiveness to which a business is subject."[33] It is this perspective that provides the bridge between business studies and the vast intellectual hinterland of studies about business context—a hinterland that includes international and comparative politics, public policy, sociology, history, and cultural studies, as well as all branches of economics, finance, human relations, and psychology. So for the rest of this section, we outline the components and dynamics of the process we call globalization—the stuff out of which corporate policy has to be made.

Four Components of the Globalization Process

With hindsight, it may be said that the roots of the transformative process of human affairs that we have come to identify under the rubric of globalization are to be found in four distinct, but interrelated developments in the world polity dating from the late 1960s and first half of the 1970s:[34]

Re-creation of the world market under the aegis of the Western powers, and by the United States in particular:[35] with the world on a dollar standard, arguably as of August 1971, when President Nixon announced an end to the dollar's convertibility into gold, global financial markets grew by leaps and bounds, providing a high-risk, but also highly flexible, medium through which global interdependence could grow.

A political contagion of transition toward representative forms of government around the globe, starting in Portugal, Spain, and Greece in the 1970s and then reaching around the world: only two alternative governance formulas were left in the field: one was theocracy, present particularly in the Islamic world; the other was the Asian developmental state, initially exemplified in Taiwan,[36] but currently powerfully represented in the regime of mainland China.

The transformation of the state system, associated with the implosion of the Soviet Union, the multiplication of the number of sovereign states in the global system, and the primacy of the United States: collapse of the Soviet Union brought China, India, and central Eastern Europe on to world markets, and raised the global labor force overnight by 3 billion people. Subsequently, China's rapid insertion into the world economy transformed the Asian balance of power, as China grew from parity with Russia and India in 1990 to an economy three times that of India and four times that of Russia.

The growth of the transnational industrial or service corporation, initially based in a home country of the developed world,[37] but increasingly originating from developing countries, such as Mexico, India, or China: all available indicators, such as the need to recuperate the cost of investment in new technologies or the estimated global sales of foreign subsidiaries, point to the continued expansion of international production and the deepening of interdependence in the world economy, beyond that achieved by international trade alone. The "new diplomacy"[38] is characterized by bargains between a diversity of states and corporations, where control over outcomes can be negotiated.

A number of considerations flow from the above. The four interrelated developments interact in a myriad of ways over the years, each one of them moving at its own rhythm and according to its very different components. That is why the two different visions prominent in the post–Cold War debate about where the world was heading in the twenty-first century are open to challenge. One view, akin to the functionalist school in business schools, had the world converging on Western political norms, Western economic policy, and a market-driven process of world integration.[39] The alternative view, similar to the realist school, was that nothing was written in advance, rather the reverse. The historical world, in which we live, this line argues, is one of inherited inequalities, different capabilities, and very diverse motivations.[40]

We argue that these two views, one of divergence and diversity, the other of convergence and integration, are the two contradictory forces that are at work in the world today, and which—in their different ways—the functionalist and realist schools of thought have isolated and helped to interpret for business school purposes. But they have done so largely autonomously of each other, and in a process that has not given nearly enough weight to the political dimensions that underpin world markets. If we wish to link corporate policy and market economics into the study of the world as it is, and as it may/not be becoming, our definition of the world process is that simultaneity and nonsynchronization in the dynamics of global transformation have led the old dialectics of the Cold War system to be replaced by a global process of change at the level of markets, societies, and cultures. In effect, the new world system to emerge in the course of the two decades since the Soviet Union's collapse has come to be characterized by both convergent and divergent trends that can be characterized as complementary opposites: a diversity of states in a nonhomogeneous world, penetrated and shaped by global markets, operating powerfully to create a more homogeneous world civilization, alongside aspirations to create a system of global governance out of the world's existing institutional framework as the counterpart to a world of relentless competition between states, corporations, or currencies. At the same time, the prospects for an increasingly wealthy and inclusive world as global civil society develops toward a higher civilization are juxtaposed with a world of history where the forces of globalization operate as a stimulant to divergence, conflicts, and a ruthless competition between peoples, states, and corporations.

It is this double movement between the forces driving toward the prospect of a radiant future and the world's very divergent capabilities to adapt that lies at the heart of the new dialectics in global affairs. Cold War dialectics were structured by the global configuration of the international system; the post–Cold War dialectic is a global process working at the level of cultures,