

Reassessing the basis of corporate business performance: modern financial economics' profit control versus integrated people and process improvement

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In his essay "*Technik* comes to America: Changing Meanings of Technology before 1930," Eric Schatzberg points out how the American concept of technology came to incorporate ideas about *Technik* formulated in Imperial Germany (1871-1918). (Schatzberg, 2006) Although he wrote the piece for the Society for the History of Technology, it should just as easily have been directed at economists. In Germany the idea of *Technik* [the combination of *Können* (practical skills and industrial arts) and *Wissen* (knowledge)] was the essence of engineering, but the Germans – who proselytized the idea – were often historical economists (e.g., Gustav Schmoller and Werner Sombart). (Drechsler, 2011) Moreover, the Americans involved in the transfer of the concept of *Technik* to America were institutional economists, *primus* among whom stood Thorstein Veblen.

Yet it is perfectly understandable that Schatzberg in 2006 would not address American economists, because the institutional economists carrying out the transfer of *Technik* before 1930 subsequently had been thrown out of economics – to be replaced by econometricians and neoclassical economists. Not only that, but, like the Stalinists who erased Trotsky from Bolshevik history, the neoclassical economists and econometricians after their takeover of American university departments of economics and business schools, refused to teach the history of economics or the history of economy theory, thereby preventing their students from even learning about institutional economists. George J Stigler noted the consequences in an article published in 1965:

"Whereas in 1892-93, forty percent of the references cited in American economics journals were in foreign languages and half of these in German, total foreign language citations have fallen to less than four percent in recent times and German has almost vanished as a foreign language from American economics." (Stigler, 1965, 47)

Stigler went on: "If references to Schmoller are now rare, references to differentials and matrices have made some sort of compensation." The transformation of the content of economics explains the dramatic decline in German influence; econometricians found little inspiration in the publications of the historical school. People in Schatzberg's example have had, therefore, to turn to the history of technology to learn about the history of economics.

The story of the successful fight of neoclassical economics and econometrics for mastery is well known (e.g., Stigler, 1965, Locke, 1989, Khurana 2007); It is of specific interest here because the analytical tools they have fashioned or adapted determine the behavior of managers in industrial firms. The most obvious evidence of dominance comes in the late 20th century with developments in investor capitalism. Lawrence Mitchell notes in *The Speculation Economy* (2007):

"A recent survey of more than four hundred chief financial officers of major American corporations revealed that almost eighty percent of them would

have at least moderately mutilated their businesses in order to meet analysts' quarterly profit estimates. Cutting the budgets for research and development, advertising and maintenance and delaying hiring and new projects are some of the long-term harms they would readily inflict on their corporations. Why? Because in modern American corporate capitalism the failure to meet quarterly numbers almost always guarantees a punishing hit to the corporation's stock price. The stock price drop might cut executive compensation based on stock options, attract lawsuits, bring out angry institutional investors waving anti-management shareholder proposals and threaten executive job security if it happened often enough. Indeed, the 2006 turnover rate of 118 percent on the New York Stock Exchange alone justifies their fears." (Mitchell, 2007,1)

The tools that the triumphant neoclassical financial economists developed to serve investor capitalism in this relationship with the firm, Mitchell also describes. He stresses one, the Capital Asset Pricing Model (CAPM) that the Nobel Prize winner Harry Markowitz introduced. Mitchell remarked:

"[T]he product of a regression analysis called *beta*, CAPM allows investors to build the kinds of potentially lower-risk, higher-return portfolios ...described by Markowitz, based solely upon a narrow range of information about the stock. The business itself matters little, if at all. All an investor needs is *beta*. No balance sheet, no profit and loss statement, no cash flow information, no management analysis of its performance and plans, no sense of corporate direction, no knowledge of what is on its research and development pipeline, no need even to know what products the corporation makes or what services it provides. Just *beta*. The stock is virtually independent of the corporation that issued it. CAPM has been adopted and is daily used by countless stock analysts and institutional money managers. Almost every American who invests in the market through mutual funds or other institutional media has invested on the basis of CAPM." (Mitchell, 2007, 275)

Almost every firm's management is, as a result, and especially since the rise of Institutional investors, detrimentally affected by the performance pressures of investor capitalism and the managerial tools that finance economists have developed to serve its interests, not the interests of industrial enterprise, or, considering the financial crisis they helped instigate, the interests of the public.

Perhaps more importantly, the deleterious effect of the toolkit of neoclassical economists, econometricians, and finance capitalists has also been expressed inside the firm, in the management hierarchies that Alfred D. Chandler, Jr. so famously and meticulously described in his work (e.g., *The Visible Hand*, 1977). Chandler stressed that different levels of management in huge 20th century multi-divisional corporations had different aims. Headquarters focused on money – as Alfred P. Sloan, Jr. at General Motors succinctly put it, "We are not in the business of making cars, we are in the business of making money." (Quoted in Rother, 2010, 63) Headquarters were staffed with controllers, accountants, and finance analysts. Engineers were increasingly relegated to the managerial echelons where they would be ostensibly preoccupied with the production of artifacts and the provision of services. But the money men's concerns became paramount throughout a firm's management hierarchy as the management systems headquarters devised provided for top-down control

and bottom-up financial reporting, with analysis based heavily on “reported managerial accounting data.” (Rother, 63) Thus management even in manufacturing firms was monetized. Two critical discussions about how this affected performance are presented.

1. Discussion one: management by results and management by means

A major figure among those who have questioned the management tools that economists in universities and US business have foisted on U.S. industrial firms is H. Thomas Johnson, Professor of Sustainable Management at the Portland State University Business School. Swimming against the tide, Johnson recently developed a course (Management 410) at Portland State that “offers students a radically different view of recent American business history than the view that has informed virtually all business school teaching in the past two generations (Johnson, 2013 “The Rise of Managerialism and the Decline of Responsible Management in American Business Since 1945.” Course syllabus reproduced in Annex).

Johnson began his publishing career working with Alfred D. Chandler, Jr. on the accounting systems that accompanied the creation of the *Visible Hand* of management that Chandler described in his Pulitzer Prize winning book (1977). (Johnson, 1978) But in the 1980s, working with Robert Kaplan, he came to question this accomplishment in an award-winning book co-authored with Kaplan, *Relevance Lost*. (See Syllabus for Management 410 in the Annex for access to the essay describing how his transformation occurred: Johnson, 2002). During this journey of apostasy Johnson parted company with Kaplan, too (see in syllabus, Art Keiner (2002) where the Johnson/Kaplan feud is reviewed).

After studying the Toyota Production System, Johnson concluded that Management Accounting’s Control Systems that he had formerly praised, what he calls Management by Results, were responsible for the decline of U.S. manufacturing, especially automobiles. He recommended instituting Management by Means (the cultivation of inter-personal relationships on the shop floor). (See Johnson and Bröms (2000) and Rother, 2010). One could, Johnson claims, if work processes are properly organized, dispense with these U.S. management control mechanisms and get far better results.

There is no need to expand the discussion about the Johnson critique; much of the referenced literature is easily retrievable in the course syllabus (Annex) and other relevant works cited are readily available. They suffice to clarify why Johnson and a small number of his colleagues believe the tools of management that neoclassical economics and econometrics taught and fostered in business schools promoted bad management and how the Toyota alternative differed.

2. Discussion two: German *Technik* as an alternative to the economics-induced US system of managerialism in industrial firms

In 2003 Edward Fullbrook wrote about the influence of the triumphant neoclassical and econometric brand of economics in America:

“They control the three most prestigious economics journals in which papers by their staff and PhDs predominate. Of the over 800 economists employed by the World Bank, a majority have been trained at one of the Big Eight

(California-Berkeley, Harvard, Stanford, Yale, Chicago, Columbia, Princeton, and MIT). The International Monetary Fund is similarly provided, as are the other highly ranked economics departments in the US and in some cases in other countries. The 2003 edition of Penguin's *Dictionary of Economics...* has entries for 29 living economists. Of these, 26... are from the US or have had all of the most important part of their careers there. Of the 26, 100 percent have either taught at or received their PhD from one of the Big Eight." (Fullbrook 2003, 6, Also Khurana, 2007)

If the German historical school of economics still has a voice in German academia because it is their tradition, in economics it has become a weak one, as the dominant and domineering US neoclassical school and the econometricians swept the academic board worldwide. In German academia American neoclassical economics and econometrics, too, are now quite at home.

This success is evident in praxis as well, especially in investment banking. Within the new banking environment that appeared in the late twentieth century, German banks began, following UK and American banks, to market new products and services. (Bátiz-Laso, Müller, and Locke, 2008) These included different loan packages, credit cards, insurance, and electronic banking through automated teller machines (ATM) and on-line services. The biggest shift in their banking practice, however, came when the commercial banks, above all Deutsche Bank and Dresdner Bank, in order to establish a reputation as security traders and business consultants in the new international environment, increasingly disengaged themselves from traditional *Hausbank* functions in German industry. Fewer bank executives by the turn of the 21st century sat on the supervisory boards of large German concerns. Whereas, for instance, in 1974 senior executives from German commercial banks occupied over 20 percent of the supervisory board seats in the 100 largest German companies, in 1993 this percentage dropped to a mere 6.3 percent (Lutz, 2000). Banks acted less as *Hausbanken* for large companies and held less of their clients' stock in their portfolios. Clients in the old "kingly merchant" German banking tradition simply became "customers" American style.

In order to overcome a lack of investment banking experience even in their home markets, German commercial banks sought to import UK and American expertise. German commercial banks joined a move by other European banks (like that made earlier in the UK by Barclays Bank and Midland Bank) and developed investment banking activities by acquisition rather than internally. Deutsche Bank, for one, turned to the UK and the US to recruit staff well versed in the ways of capital markets, and it bought Morgan Grenfell, the British merchant bank, in 1989 and Bankers Trust, the US specialist in hedge funds, in 1999. Dresdner Bank acquired UK-based Kleinwort Benson in 1995 and US-based Wasserstein Parella in 2000, attempting to expand into the global big league of underwriting, sales and trading, and merger advice.

Still, in 2004 the investment arms of the two major German commercial banks (Deutsche Bank and Dresdner Bank) combined had, within Germany itself, only 38.3 percent of the mergers and acquisitions, 21.8 percent of the equity market, and 16.3 percent of the debt market business (*The Economist*, 13 November 2004, 82). J.P. Morgan, Morgan Stanley and Goldman Sachs beat the German banks in their home because this investment banking was an American kind of capitalism. The position of German banks was so bad that a German agency, *Kreditanstalt für Wiederaufbau*, thought it best in order to optimize results in the privatization of Deutsche Telekom, the German telephone company, to auction large

blocks of shares through foreign investment banks rather than through the investment bank arms of Deutsche Bank, Dresdner Bank and other German banks (*The Economist*, 27 March 2004, 75).

German investment banking's absorption into the UK-US banking world, symbolized by the relocation of Deutsche Bank's investment banking headquarters to London, amounted to its general acceptance of the investment banking toolkit that US business schools worked out co-operatively with prominent Wall Street investment firms (Locke & Spender, 2011, 156-73). To the extent that these practices provoked the financial crisis, German banking through its adoption of them became system accomplices.

German industrial management, however, could not so easily fall under the sway of financial control economics. Although from a management accounting perspective German engineers and business economists were steeped as much as Americans in accounting techniques – they had often been pioneers in their creation (Locke, 1984, 2006, 155-97) – there was more to industrial management than accounting. Johnson remarked:

“Successful [US] managers believed they could make decisions without knowing the company's products, technologies, or customers. They had only to understand the intricacies of financial reporting.... [B]y the 1970s managers came primarily from the ranks of accountants and controllers, rather than from the ranks of engineers, designers, and marketers. [This new managerial class] moved frequently among companies without regard to the industry or markets they served.... A synergistic relationship developed between the management accounting taught in MBA programs and the practices emanating from corporate controllers' offices, imparting to management accounting a life of its own and shaping the way managers ran businesses.” (Johnson and Bröms, 2000, 57)

Johnson despised these lifeless pyramidal structures imposed on work processes and managed by computer-oriented-production-control experts:

“At first the abstract information compiled and transmitted by these computer systems merely supplemented the perspectives of managers who were already familiar with concrete details of the operations they managed, no matter how complicated and confused those operations became. Such individuals, prevalent in top management ranks before 1970 had a clear sense of the difference between ‘the map’ created by abstract computer calculations and ‘the territory’ that people inhabited in the workplace. Increasingly after 1970, however, managers lacking in shop floor experience or in engineering training, often trained in graduate business schools, came to dominate American and European manufacturing establishments. In their hands the ‘map was the territory’. In other words, they considered reality to be the abstract quantitative models, the management accounting reports, and the computer scheduling algorithms.” (23) (For further comment on how abstract quantitative models misrepresent reality see, Drechsler, 2011 and Syll, 2012)

Nonetheless, in his critique of US Management by Results, Johnson's concern is as much with the people from business schools who increasingly lacked the skills and experience

acquired on the shop floor, as with the instruments of management accounting. People familiar with similar tools, in a different educational and work environment (e.g., the French ingénieur-économistes) produced much better results or at least much less harmful ones than did financial economists in US business schools (Locke, 2011b). This German manufacturing management culture did and does, too.

Engineering equals Technik

Germany has strong traditions in craft workmanship that have been integrated into the educational and industrial system. German secondary school students can and do enter into an apprenticeship, after grade 10, and work in an organized program in a firm on some approved occupation (chimney sweeping, bookkeeping, metal working, machine operating, etc), while still attending high school courses (e.g. in English, German, mathematics), before they end the program, after three years, if successful, with an apprentice certificate in their specialty (*Fach*). This practical education can be continued up to the master craftman's level (*Meisterbrief*), a qualification that is highly respected in the German work world. Many first line supervisors in German factories have this qualification.

The apprenticeship system tied into a system of commercial and technical education that required people to have completed an apprenticeship in order to enter the schools. Students in these schools (now *Fachhochschulen*) studied for three years, alternating coursework with stints working in industry – to emerge with a sub-university diploma, of *Grad-Ing* (later *Dipl-Ing FH*). In 1900 an Imperial decree permitted the technical institutes (*Hochschulen*), whose scientific stature had grown impressively as had the institutes during the second half of the 19th century, to issue the university level degrees of *Dipl-Ing* and *Dr. Ing*, the first university-level engineering doctorate in the world. Before World War I revealed the ugly side of technological civilization, the new high tech industries that the technical institutes did so much to foster, spectacularly, especially in the electrification of the world, like the digital revolution today, captured the admiration of the public. Nonetheless, scientific achievement did not separate the engineering professors from the practical work world. The professors were required to have at least five years' experience in industry to be eligible for a technical *Hochschule* chair.

German technical education, which grew up about 1900, thrived, if in different forms, throughout the 20th century, as a unified system connected to industry. Professors in the technical institutes (*Hochschulen*) educated the teachers who worked in subuniversity technical schools (today's *Fachhochschulen*). Accordingly the teachers in the subuniversity sector carry a scientific knowledge component from the technical *Hochschulen* where they have been taught to the technical schools where they teach. Because the technical schools stressed practical education, the technical *Hochschule* educated teachers were also required to have years of experience working in firms before landing a teaching position. As for technical school students, because their teachers had studied in technical institutes, students were exposed, through them, to the knowledge component (*Wissen*) of engineering, but because students in technical schools were required to have done an apprenticeship to enter, they had exposure to the practical (*Können*) part of engineering (*Technik*). Graduates of technical schools (*Grad-Ing*, today *Dipl-Ing FH*) have consistently been highly sought after by German industrial firms; they rise to the highest positions in German industrial management.

The interconnection between this system of technical education and praxis made German engineering a different animal than that growing up in the United Kingdom. Ian Glover notes that “In Anglophone countries, two cultures, the arts and sciences are recognized.” In the two cultures engineering was placed in an inferior place within the science culture, and UK scientists looked down on engineering as an inferior subject for the less brilliant and gifted. Glover went on to note that in [Germany] rather than two cultures there are three: “*Kunst* (like the arts), *Wissenschaft* (similar to science) and *Technik* (the many engineering and other making and doing subjects, representing practical knowledge (*Können*),” including scientific knowledge (*Wissen*). (Glover, 2013, 9) In Germany a great chain of practical education (*Können*), the art of practical work, topped off with knowledge (*Wissen*) gained primarily in technical *Hochschulen*, combined, in education and workplace, to define German engineering as this third culture of *Technik*. The German engineering society [Verein Deutscher Ingenieure (VDI)] has consistently pitched a large tent, including in its membership craftsmen, machinists, *Grad-Ing*, *Dipl-Ing*, and *Dr-Ing*. If distinguishable from each other in the social hierarchy, they stood and stand as equal participants through their skills and knowledge, all carrying out the tasks of German engineering, provided, of course, that they know their job (i.e. have *Fachkompetenz*) and are able to perform in the firm by being both *leistungsfähig* and *leistungsfertig* (*fähig* = capable of doing a specialist job, educated for it, *fertig* = ready to do the specific job assigned).

Transferred to the industrial enterprise, German *Technik* produces a very different kind of management than that encountered by Johnson after 1970 in US industry. Four differences can be emphasized.

1. Whereas US top managers and their minions from business schools say that the firm’s purpose is to make money, in Germany firm managers steeped in *Technik* say that profit making is incidental to the greater purpose of the firm, which is to provide a superior product and/or service to benefit humankind (Lawrence, 1980, 108). This is the ethos of engineering that economists rarely share.
2. If in Germany the product or service is the thing, then for the firm’s employees knowledge of a job speciality (*Fachkenntnisse*) and performance (*Leistung*) are keys to success.
3. The German manager’s education is that of a specialist, and so is his or her managerial function in the firm. MBA education has never flourished in Germany; nor have business schools; nor in academia has generalist management education. German industrial management, under the aegis of *Technik*, does not need to discuss what MBAs learn in their generalist education about company strategy, neither does it need to set up special groups outside the production process – as business school educated US management does -- to plan, control, and make decisions. The goal is to make the best possible product or service. *Technik* is in the foreground, and management techniques and company strategy take second place.
4. This respect for specialized experts within the production process to conduct management, leads to a diversity which is often represented on a company’s board of directors. Lawrence, in his study of German managers and management, comments: “Not only is the production engineer there but so is an engineer from Design, often, in fact, more than one is on a board if the firm has more than one product line.” Germans do not want people on the board who don’t know their stuff. But diversity does not produce disunity in overall purpose. Within the German firm, *Technik* is a force for integration. The German firm is *Technik* in organizational form. The skilled worker, the foreman, the superintendent, the technical director are all participants in

Technik. While there are many things that they do not have in common, *Technik* is something which transcends hierarchy. (Lawrence, 1980, 98)

In Anglophone countries, neoclassical economics and econometrics have assumed the status of “superior” “sciences”, which in their two-culture environment permits them to guide and control the lesser (inferior) technical skills and knowledge components involved in production processes. As an outsider within the German three culture world, economics as “science” cannot interfere with the third culture of *Technik* with such impunity.

Just as Johnson attributes superior outcomes at Toyota’s Georgetown, Kentucky plant, to Management by Means, which Management by Result in Detroit’s Big Three could not match, the German engineering community united by allegiance to *Technik*, in which cohorts of business school MBAs had no place, outperformed the MBA graduates and finance experts in US industrial management who used the toolkit of neoclassical economics and econometrics but lacked the knowhow that the German management engineers possess about how to run industrial processes. The US automobile industry declined under such a regime in the late 20th century, while leading German firms reformed their production systems in the 1990s and joined the Japanese as world leaders in this highly competitive industry. At the same time, German firms, many of them family owned niche manufacturers in what Germans call the *Mittelstand* (small and medium size firms) also thrive because their owners pay close attention to the recruitment and training of a workforce driven by the values of *Technik* not those of the money men. (Vernohn and Meyer, 2007, 29)

These two discussions plus references to the constraints of Investor Capitalism illustrate the shortcomings of neoclassical economics and econometrics as prescriptive economic and management science, which they claimed or at least aspired to be as they emerged in academia, government, and firms after World War II. Despite the evidence of their failure, about which readers of the *Real World Economics Review* and its blog are depressingly aware, mainline economists cling to their methods and claims. They do so because they believe that from their methods a prescriptive science **might** someday, somehow, appear (a hope), and that, even in a worse-case scenario, if scientific competence continues to elude them, the methods of precursors, in historical and institutional economics, have even less of value to offer.

Is this true? Discussions of German *Technik* suggests that it might not be. The pre-1930 institutionalists looked at economics differently from those that replaced them. Schatzberg observed that the institutionalist Edwin R. A. Seligman, defined economics as the study “of the social conditions necessary for the sustenance of life.” (498) The neoclassical economists and econometricians have paid scant attention to the social conditions supporting the sustenance of life. Yet Johnson’s analysis and the German concept of *Technik* are very much preoccupied with the social conditions of life expressed in the production process (i.e., interpersonal relations, the producing community uniting around the idea of *Technik*).

Thorstein Veblen in an appraisal of German *Technik* noted that it produced a set of socially beneficial tendencies and a set of parasitical forces. Among the beneficial tendencies he counted “workmanship, industry, the machine process, and technological progress.” (Schatzberg, 499) On the parasitic side he listed “predation, business enterprise, absentee ownership, and other pecuniary institutions.” (499)

From the perspective of econometric and neoclassical economics, Veblen's dialectical reasoning, however sophisticated the historical analysis, is not very useful for their prescriptive problem-solving. But this is so only if we restrict that decision-making to the power brokers in society that neoclassical economists and econometricians have educated. If the decision involves social choices that would promote or hinder the peaceful development of industry for the entire community, then Veblen's institutional analysis is more germane to proper decision-making about our macro and micro economic future than neoclassical economics or econometrics. Veblen singled out one parasitical institution, which is worth mentioning because it is the subject at hand – the business school.

In his 1918 book *The Higher Learning in America: A Memorandum on the Conduct of Universities by Business Men*, he provided a critical perspective on the role of the schools of commerce within the American university and, by consequence, their effect on the society as a whole. Veblen asserted that “the college of commerce (now called colleges of business), if it is to live and thrive, may be counted on to divert a much larger body of funds from legitimate university uses, and to create more of a bias hostile to scholarly and scientific work in the academic body, than the mere numerical showing of its staff would suggest.” (Veblen, 1918, 157) Furthermore, he wrote about the consequences that a “habitual pursuit of business” has on the ideals, aims and methods of the scholars and schools devoted to “the higher learning”. Put simply, “The consequences are plain. Business proficiency is put in the place of learning.” (Veblen, 1918, 142 in Robert Kemp, 2011).

Our complaint about US business schools mirrors Veblen's. To use his colorful language, they are a “parasitical force” because they do not peacefully serve “the entire community”. (Locke, 2012) Traditionally universities do because they are engaged in knowledge creation through science and the teaching of that knowledge in a disinterested way to students. That is Veblen's view. Business schools are a different matter since they promote “business efficiency” at the expense of knowledge. To the extent that they have taken over university education (and Robert Kemp's study indicates that this takeover is almost complete [Kemp, 2011]), the information they now disperse increasingly serves only a special interest not the “entire community.” (Locke and Spender, 2011, 100-103) Since they ignore people in the community engaged in crafts and other practical economic pursuits, business schools by this selectivity and exclusivity, unlike schools in German technical and commercial education, do not relate to the “entire community.” Nor do the curricula they develop, serve the general interest of the firm. Their professors and MBAs look on firms, as do their all-powerful CEOs, as money mills that funnel money to top managers, stockholders, and other investors, and they have fashioned the management control and reporting instruments, accordingly, even if, as the examples cited in this text show, that toolkit leads to underperformance and perhaps to the eventual extinction of the firm, primarily at the expense of non-management employees and workers.

In recent decades, as the gap between rich and poor becomes increasingly alarming and the trend apparently irreversible, i.e., it is not cyclical, claims about the fruitfulness of American enterprise – that it sustains a people of plenty – have become increasingly spurious. Neoclassical economists and econometricians have little to say about such matters, but institutionalists' do. Inasmuch as debates for understanding and reform require a close scrutiny of their economics, it is all the more important that students of economics in their business schools and departments of economics be exposed to economists like Veblen. For that to occur, students and professors of economics should not have to turn to people like Schatzberg in the Society for the Study of the History of Technology or Kemp, working in a

school of pharmacy, because there is good reason to think that the way we have institutionalized business education and enterprise management in the age of neoclassical economics and econometrics contributes mightily to the mal-distribution of wealth that threatens the existence of the commonwealth. **That** is what students of economics need to discuss, and they need a better economics to do it.

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Annex: The rise of managerialism and the decline of responsible management in American business since 1945

Management 410 (online) Winter 2013 Syllabus

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Course description and objectives

This course examines the influence of modern theories of economics and finance on management practice and business school teaching since the end of World War II. The course shows this influence through the rise of managerialism, a belief that managers using generic management theory and skills taught in graduate business schools can optimize performance in any business. As defined by business historian Robert Locke, the term managerialism also defines a "management caste" that seizes all decision-making power from an organization's owners and employees "on the grounds of [its] education and exclusive possession of the codified bodies of knowledge and know-how necessary to the efficient running of the organization." This elite caste of managers, increasingly disconnected from any

ethical considerations, has succeeded in the past sixty years in replacing responsible management practice and thinking with managerialism's "management from hell," thereby throwing America's economy, its business sector and its people desperately out of balance.

The objective of this course is to offer students a radically different view of recent American business history than the view that has informed virtually all business school teaching in the past two generations. It is hoped that exposure to this alternative view will equip students to better understand the root causes of today's deep and pervasive economic crisis and thereby help them to understand and evaluate measures that business, political and academic leaders propose as answers to this crisis.

This course is a work in progress and is subject to change on short notice.

Required reading

Robert R. Locke and J.-C. Spender, *Confronting Managerialism: How the Business Elite and Their Schools Threw Our Lives Out of Balance* (London and New York: Zed Books, 2011) [referred to below as Locke and Spender]

Articles assigned below [instructor will provide]

Recommended optional reading

- John Cassidy, *How Markets Fail: The Logic of Economic Calamities* (New York: Farrar, Straus & Giroux, 2009). A superb critique of modern economics and finance and the policy failures both have spawned.
- Herman Daly and John Cobb, *For the Common Good: Redirecting the Economy toward Community, the Environment, and a Sustainable Future* (Boston: Beacon Press, 1989 and 1994). A timeless classic that should be required reading in all economics and management programs.
- Wendell Berry, *What Matters?: Economics for a Renewed Commonwealth* (Berkeley, CA: Counterpoint Press, 2010). A collection of 15 of Berry's most compelling and provocative essays from the past 25 years.

Useful weblink: <http://www.worldeconomicsassociation.org>;

Assignments

Discussion forum: Submit a succinct but meaningful answer to each week's question by the end of the week. Once you have submitted an answer you are able to examine and respond to other students' answers. The instructor will respond to each answer and to as many subsequent responses as possible. Use the forum as an opportunity to share ideas [responsibly and civilly] with other students.

Term paper: On or before [date] email to the instructor a paper of about 6 to 8 double-spaced pages summarizing findings from the course that challenge (or reinforce) your basic beliefs and values concerning the role of business in our society. In particular, discuss how the assigned readings and forum discussions provoked you to ask new questions, to see old assumptions in a new light. You are invited to reflect on personal experiences in business or in school

There is no final examination in this course.

Grades

Grades will be based on evidence from the forum discussion and other written work that you are pursuing conscientiously and seriously the issues raised in course and in the readings.

Weekly schedule of assignments (preliminary and tentative)

Week 1: Topic – Management and managerialism

Objectives

- Seek better questions, not better answers to poor questions
- View reality as relationships, not as a collection of separate parts

Readings

- Locke and Spender, Preface, pp. x-xix
- H. Thomas Johnson, "A former management accountant reflects on his journey through the world of cost management," *Accounting History*, NS Vol 7, No 1 (May 2002), pp. 11-21 [\[PDF\]](#)

Discussion question

- What fundamental purpose(s) do top managers serve in running a business?

Week 2: Topic – Managerialism and business school education to 1970

Objectives

- Examine the purpose of economic activity
- Consider management specialization and "lost concreteness"

Reading

- Locke and Spender, Introduction, pp. 1-21
- H. Thomas Johnson, "When Accountants Come to Power," review of Robert R. Locke, *Management From Hell: How Financial Investor Logic Hijacked Firm Governance* (2012) in <http://www.nephis.org> (May 8, 2012)

Discussion question

- How did abstract and quantitative management practices performed increasingly by mid- and top-level managers after the early 20th century, ostensibly to run larger and larger enterprises more efficiently, become "a system that has, most paradoxically, often denied organizations the very means needed to formulate and effectively reach their goals?" [Locke and Spender, pg. 19]

Week 3: Topic – Management science and the U.S. business school

Objective

- Examine conventional management thinking re: measurement, science and what matters

Readings

- Locke and Spender, chapter 1, pp. 22-60
- Art Kleiner, "What are the Measures that Matter?" *strategy + business Magazine* (First quarter, 2002), pp. 1-6. [\[PDF\]](#)

Discussion question

- In American manufacturing and information technology industries, what was the impact after 1960 of mathematical management tools developed during World War II and the new management thinking they helped bring to graduate business school education?

Week 4: Topic – Managerialism, business schools and a moral compass

Objective

- Consider moral imperatives, if any, that frame modern business behavior

Readings

- Locke and Spender, chapter 2, pp. 61-105
- Robert R. Locke, "Reform of Finance Education in U.S. Business Schools: An historian's view," *real-world economics review*, issue no. 58, 12 December 2011, pp. 95-112. <http://www.paecon.net/PAERReview/issue58/Locke58.pdf>.

Discussion question

- What ethical imperatives (moral compass) are consistent with/implicit in the "bottom-line" worldview that underlies American managerialist thinking? In discussing this, contrast management attitudes toward workers in American companies with those in foreign

companies (esp. in Germany and Japan) that value employee contributions to management.

Week 5: Topic – Managerialism and the U.S. auto industry

Objective

- Examine consequences of viewing business operations as a collection of independent parts versus a community of interdependent relationships

Readings

- Locke and Spender, chapter 3, pp. 106-132
- H. Thomas Johnson, "How Toyota Ran Off the Road – and How It Can Get Back on Track," *Leverage Points Blog* (<http://blog.Pegasuscom.com/Leverage-Points-Blog/bid/30450/How-Toyota-Ran-Off-the-Road-and-How-It-Can-Get-Back-on-Track>)

Discussion question

- How and where does control of operations in Toyota's production system differ from that in one of Toyota's typical American competitors?

Week 6: Topic – Bumper case: Two approaches to organizing work

Objective

- Observe and evaluate specific examples of work organized as a mechanism and as a natural living system

Readings

- H. Thomas Johnson, "Lean Accounting: To Become Lean, Shed Accounting," *Cost Management* (Jan/Feb, 2006), pp. 6-17

Video and Video Data Files

- Styro, Inc. (1984), simulation of large-batch versus lot-size-of-one assembly [<http://www.psuemba.info/sba/tom/W2L1.wmv>]
- Styro video data file (I recommend that you print out the data file to have in hand when you watch the video)
- Powerpoint file - Bumper case presentation

Discussion question

- What difference is there between the goal (or purpose) of operations in Toyota and a non-Toyota American competitor?

Week 7: Topic – Managerialism, business schools and our current financial crisis

Objective

- Examine the economic and social consequences of viewing business activity through the lens of finance

Readings

- Locke and Spender, chapter 4, pp. 133-173
- John B. Cobb, Jr., "Landing the Plane in the World of Finance," *Process Studies*, Vol. 38, no. 1 (2009) [[PDF](#)]

Video

- *Inside Job*, a story of the global economic crisis of 2008 directed by Charles Ferguson (Winner of the 2010 Academy Award for Best Documentary) [109 min.]

Discussion question

- Reflecting on the distinction John Cobb makes between "virtual" and "real" economic activity, do you expect business institutions to be a source of economic livelihoods and a venue for management (i.e., the task of "getting things done through people in organizations") in coming years?

Week 8 : Topic – Restoring balance

Objective

- Steps to reform; evaluate the idea of management as a “science”

Readings

- Locke and Spender, conclusion, pp. 174-192
- Andrea Gabor, "Seeing Your Company As a System," *strategy+business* (Summer 2010) [\[PDF\]](#)

Discussion question

- Why do businesses need CEO's? In this regard, consider what the readings have said about employee-participative management, managing for long-term survival rather than for short-run financial targets, and managing “like a tree”(i.e., where every part embodies the spirit of the whole and the whole is an implicit pattern, not an external object separate from its parts).

Week 9: Topic – Searching for a moral anchor

Objective

- Examine the one and only universal human story

Readings

- Thomas Berry, “The Universe is Our University” [\[PDF\]](#)
- Edward O. Wilson, “A New Enlightenment,” *The Social Conquest of Earth* (W.W. Norton, 2012), chapter 27, pp. 287-297.

Video

- *The Awakening Universe: A Liberating New Cosmology For Our Time Based on “The Universe Story” by Thomas Berry and Brian Swimme*, a film by Neal Rogin [15 min plus interviews]

Discussion question

- What empirically-grounded narrative compiled by scientists in the past century offers a universal story of “how nature works”? Briefly discuss insights from that narrative that can guide our efforts to create a sustainable human economy.

Week 10: Topic – Moving management practice and thought to a new level

Objective

- Consider what business might be in a human economy that works in harmony with Nature’s system

Readings

- H. Thomas Johnson, “A Global System Growing Itself To Death – And What We Can Do About It,” *The Systems Thinker*, Vol. 23, No. 4 (May 2012), pp. 2-6 [\[PDF\]](#)
- H. Thomas Johnson, “Lean Management and True Sustainability,” *Lean Manufacturing*(SME, July 2008), pp. 97-103.

Discussion question

- What key features might one observe in an economic system that embodies principles of “how nature works” rather than “how humans think” (cf. quotation from Gregory Bateson)?

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SUGGESTED CITATION:

Robert R. Locke, “Reassessing the basis of corporate business performance: modern financial economics’ profit control versus integrated people and process improvement”, *real-world economics review*, issue no. 64, 2 July 2013, pp. 110-124, <http://www.paecon.net/PAEReview/issue64/Locke64.pdf>

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