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Editorial: Global crisis and the business school – provocations

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At the time of writing (October 2009), no one is clear where the global economy is going. Even if the optimists are proved correct, the years 2008–2009 have seen capitalism’s biggest crisis since the 1930s and it has struck in the heartlands of the global system. The failures of the dot.com boom and bankruptcies, like those of Enron and WorldCom, now appear as warning signs of bigger things to come. Whereas these signs could be shaken off it is harder to dismiss the significance of the financial crisis which carried away part of the world’s financial architecture in the autumn of 2008 and the scale of state action that was needed to prevent an even greater crisis in the ‘real’ economy.

Given that the last decades have seen a massive increase in the scale and role of business schools, it seems only wise to encourage some reflection on the role that they might or might not have played in encouraging or reflecting the misjudgements on that an unsustainable boom was built.

But academic publishing is notoriously slow and its conventions do not always allow for the sharpness of debate out of which a real change might come. Such debate is all the more necessary given that the agonising that has appeared in the daily and weekly press can come to seem to have an ephemeral character. With this in mind, the editors of the International Journal of Management Concepts and Philosophy decided to invite a series of short provocations and reflections on the role of business schools and the crisis. One of our number wrote such a provocation which was then sent to prospective authors who were asked to either respond or develop their own such provocation. Most chose the latter. We believe that the resulting short papers, from a varied group of contributors, reflect a wider concern that must be given voice. Each piece stands in its own right. With the exception of the first piece which all prospective authors were sent, they have been written independently. Together, however, we offer them to readers as a challenge to not merely think more deeply, but encourage new practices in the way that business is studied and taught.
Provocation: Business schools and economic crisis – A need for a rethink?

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Abstract: This paper reviews the main elements of the development of the financial and economic crisis from 2007/8. It considers the extent to which the teaching of business schools contributed to this in terms of misleading approaches to the issue of managers, leadership, human resource development research methods and so on. It argues that business school teaching has been too much for business rather than about it and that critical management studies has come to share this narrower focus.

Keywords: business schools; economic crisis; management teaching; managers; leadership; human resource management; Chartered Institute of Personnel and Development; CIPD; critical management studies.


Biographical notes: Michael Haynes is a Professor of International Political Economy at the University of Wolverhampton and has written extensively on global business and economics. He is an Editor of this journal. He writes here in a personal capacity.

The debate on the role of business schools goes back almost to their first creation. Do business schools exist to provide a place where people can study about business or are they there to provide for business? Over time, most people in business schools have opted for the latter view. Business schools exist to help provide employees who are informed and enthusiastic about business and to provide ideas and to undertake research which help business function ‘better’. In the last decades, this pro business, pro management agenda has been especially prevalent. Even scholars in the critical management community have to some extent bent to it by accepting that it is difficult, if not impossible, to be ‘against management’ in principal, let alone in the environment of a business school. In these terms, their critical cut is much less ambitious than it was at the outset as is their engagement with what is really happening (Parker, 2002). At the 2009, Critical Management Studies Conference in Warwick, for example, the world economic crisis was all but absent from the proceedings and seemingly in the minds of most of those attending.

But being for business gives rise to a second problem. What real influence do the business school, business school scholarship and management theory have on the way business operates? One group has argued too little but then differed on the source of the
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problem. For one side, the fault lies with the way that business schools have produced scholastic work of no relevance to the ‘real world’ (Bennis and O’Toole, 2005). For the other, it lies with the preferences of working managers for at best intuition and at worst, fads (Peffer and Sutton, 2006). Others argue that the problem is that business schools have too much influence. Here perhaps the most elegant voice was that of the late Sumantra Ghoshal (1948–2004) who in his critique, (and to some extent mea culpa), suggested that elite business schools had to change because of the way that their students had been encouraged to adopt the most cynical approaches to the organisations that they came to help lead (Ghoshal, 2005).

Until 2008, this debate might have seemed a relatively abstract one. With the collapse of the Soviet type economy in 1989–1991 and the shift in China, it seemed to many as if not only had ‘capitalism’ won but so too had its neo-liberal market forms. It is true that the collapse of the dot com boom punctured some of the ‘market populism’, as did the subsequently huge bankruptcy and related frauds in companies like Enron, World Com in 2001–2002. But what will surely be startling with hindsight is the way that the warning signs were ignored and not least by those in business schools. It is now evident that the dot com bubble was overcome by the encouragement of another form of bubble economics which intensified the underlying fragility of the financial and business system and encouraged the worst practices of each to reinforce one another.

The first signs of difficulties in 2007 in the financial sector were ignored, but in the late summer of 2008, the world economy encountered its biggest financial crisis ever in absolute terms and possibly the biggest in relative ones as well. With the collapse of Lehman Brothers on September 15th 2008, the scale of the crisis became evident. Confidence dissipated and the core economies of the world economy began to turn in on themselves (Mason, 2009).

By mid 2009, the following stylised challenges could be recorded:

1. The implosion of the global banking system and the failure of the world’s greatest investment banks.

2. A halving of value on the world’s stock markets and gyrations in commodity markets, not least oil.

3. More or less generalised global recession and a shift towards a near deflationary situation in major economies.

4. The collapse or restructuring of major companies across the world from the car industry to the retail sector.

5. Millions of people globally being made unemployed or put on short time with the threat that this will continue after the economy begins to recover.

6. Massive state aid which has seemingly gone some way to reducing the scale of the crash with bail outs of the banking systems and massive state fiscal stimulus – a pragmatic shift towards forms of Keynesian state capitalism.

7. A failure to deal with the real causes of the financial implosion in the form of interlocking toxic, sub prime debts which remain barely hidden in the financial system.
A threat to existing stage expenditure and social policies as resources are redirected towards the bail outs and fiscal stimuli and state revenues fell, not least because of the decline in business taxes.

A general failure to confront the behaviour that led to the crisis and, on some accounts, an intensification of risk of a second crisis as existing banking capital was further concentrated; moral hazard intensified with a sense that the remaining institutions are too big to fail; opportunities taken to exploit windfall profits as a result of state aid; a reluctance to seriously regulate rewards and behaviour.

Where does this leave business school teaching? Many business schools have offered their students an inconsistent melange of approaches. Hard quantitative approaches have been used to support core neo-classical and rational choice economics. Strategy has been about entrepreneurship, the search for types of competitive advantage in which every nuance is being presented as a new paradigm to the detriment of any engagement with the sustainability of the basic economic and company model. The focus on principal agent problems and transaction costs seems to have done nothing to prevent widespread corporate failure or to allow us to understand it. Pasted onto this, elsewhere in the curriculum, has been a naive faith in corporate social responsibility which, if it does not live up to its claims today is hoped to live up to them tomorrow as the concerns of ‘stake holders’ (one of the weasel words of the last decades) are addressed.

In marketing, the radical consumer critiques of an earlier generation were displaced by adventures in consumer culture theory and the consumer experience, but with limited attention to the insubstantial basis on which it was built. Both mainstream marketing and its critical wing took little account of the piling up of debt or the ways in consumption has fed into ‘affluenza’ and the widespread feelings of dissatisfaction in western society in general and Anglo-American style systems in particular (James, 2007).

Many in business schools have pushed the argument that ‘we are all managers now’. In the UK, the use of the title manager has become so promiscuous that, according to the Chartered Management Institute, 15% of the labour force are managers or senior officials (11% of women workers and 18% of male) – a higher proportion than in most other countries even though the same widening usage may be present there too’. Sadly, however, as the economic crisis has developed many of those who have been ‘uptitled’ to ‘manager’ or believed that their work involved significant managerial elements have found themselves just as vulnerable to unemployment. Worse when they began the undignified round of benefits and job applications they found that their managerial pretensions often collapsed in the face of labour market realities.

Leadership too might be thought to be another victim of the crisis. If everyone could be a manager of sorts so they could also be a leader and demonstrate leadership. But many of the real business leaders proved most adept at misleading their boards, their employees, customers, governments, etc. as they built up illusions themselves or fell prey to the illusions of others. And when the crisis blew up leadership also seemed to mean ‘never having to say you are sorry’ or quickly exploiting the possibilities for departing with golden parachutes. Deregulation created part of the space in which ‘leaders’ could flourish, but it also helped to generate ‘trust’ as a cement. This only seems to have allowed for massive exploitation of insider advantages and even outright criminality. The scale of this has yet to be fully accounted for and not least because one of the perverse consequences of deregulation was to push more activities into the grey zone of the
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semi-legal. More of us were therefore left watching in awe as those at the top of our organisations expanded their wealth and power leaving us to practice not leadership but sheepish followership.

Human resource management and human resource development subspecialists encouraged the view that employees were the firms’ most valuable asset to such an extent that old fashioned trade unions were no longer needed. ‘Management’ recognised the need to protect and nurture their workforces. This is set out in the publications of organisations like the UK Chartered Institute of Personnel and Development (CIPD) which, in its own words, is ‘the professional body for those involved in the management and development of people’. With its 135,000 members, the organisation’s mission statement claims that it seeks ‘to lead in the development and promotion of good practice in the field of the management and development of people, for application both by professional members and by their organisational colleagues; to serve the professional interests of members; to uphold the highest ideals in the management and development of people’.

But faced with crisis and mass redundancies, what did these high standards amount to? Some claimed that the fact that some firms were putting their workers on short time in preference to sacking them, meant that ‘good HR practice’ was being vindicated even though the most cursory reading of any economic history book would reveal that short time working has always existed as a response to crisis and it is far from clear that the scale of this is comparable to the way that it has been used in the past. Certainly, the HR rhetoric was no protection for some groups of workers who might volunteer for reductions in work and pay one week, only to be dismissed the next.

Most galling though was that the CIPD itself as an organisation came to seem to embody some of the worst traits that it argued should not be present in others. As 2008 went into 2009, the CIPD was concerned to insist that redundancies should be a last resort, even creating a calculator to warn employees of their hidden costs. In late March 2009, the organisation went further and set out money saving alternatives to redundancy. Yet the very next week after this was published, the organisation’s own staff were called to a meeting at a day’s notice and told that 41 of them were being made redundant with a month’s notice. Their bemusement was evident in their anonymous conversations with journalists who took some interest in the case. “The [redundancies] are especially hard to take”, said one, “when the person telling you your job is no longer available or at risk is earning £300,000 and the people being let go are earning between £20,000 and £30,000.” “This was poor timing considering the announcement of a new director joining”, said another, “It’s not appropriate in the current situation. Do they need all these directors when they are getting rid of staff?” (Berry, 2009).

In these terms, a better protection for those who have been taught in business schools might have been a greater scepticism and a more engaged critical attitude. But even here, there must be censor. Research methods teaching is central to business school work, not least at masters and MBA levels. But how much of research methods teaching has really equipped students to understated what is going on? As the research methods books get bigger so they encourage third rate philosophical speculation about ontologies and epistemologies alongside deeper engagement with SPSS, N-Vivo, etc. to analyse self generated data that would not past muster in most other social science disciplines. But exploitation of the abundant existing material and the development of the capacity to do real investigatory research as opposed to cod surveys or interviews with unrepresentative
samples and not least friends, classmates and work colleagues, comes a very poor second in most textbooks and courses.

It will, of course, be argued that this critique is overdrawn and to the extent that it has substance it draws on the experience of ‘bad apples’ in a healthy barrel. But the rotten apple analogy has always been deployed by those who wish to distract attention from the scale of the problem and the extent to which problems are structural and flow from factors which are intrinsic to the system. If it is true that economic crisis has these structural causes, then it also seems no less true of the dysfunctional aspects of the ways in which business schools have developed in the last decades also has structural causes.

This is the charge that business schools need to respond to. If there is any validity in it, then we need to open up a dialogue about how they should change. We do not know how quickly the global economy will recover from its current difficulties. By the time this discussion appears, there may be more evidence of this though it seems that unemployment will lag and therefore still hang over the present for some time to come, even on the most optimistic scenario. At the time of writing everyone is looking for historical parallels and having died in 2006, marginalised to some extent, the economist J.K. Galbraith has suddenly found new favour for his analysis of the speculative failures of the past and his scepticism towards the present. History does not quite repeat itself. Every crisis always has new and differentiating elements. But even if the optimists are right and the system bounces back strongly, without bundling up problems for a new fall, the scale of this crisis still needs to be recognised. The one thing that Galbraith did continually stress is that, faced with crisis, people often refuse to change, reflecting, as he put it, “the triumph of dogma over thought” [Galbraith, (1992), p.186]. The question for us is to what extent dogma will continue to flourish in business schools?

References

Notes
Provocation: Business schools and economic crisis –
The only true wealth is the wealth of the mind

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Abstract: This paper argues that financial and economic crisis reflects the way that managers and the managerial elite often make fallible and self-interested decisions. Business education has contributed to this through a conditioning process, where educators have reduced the content of business education by neglecting its basic disciplinary concepts and preferring a soft agenda that panders to fashion and student complaints about ‘difficult work’. This is supported by university managers who see business schools as sources of income and the embodiment of a business focused agenda.

Keywords: business schools; economic crisis; financial crisis; managers; managerial elite management teaching; business fashions; management research.


Biographical notes: Les Worrall is currently a Professor of Strategic Analysis at Coventry University in the UK. He has published extensively on organisational problems, organisational stress, the work-life balance and the nature of management knowledge. He has also been a Consultant to a large number of organisations including the Confederation of British Industry, the Chartered Management Institute and various UK local government organisations. He has been the Chair of the British Academy of Management’s Directors of Research Network.

The last year has been the most tumultuous year I can remember: it was a year when many large organisations that we have all taken for granted failed and it was a year when some of the institutions which bind society together were severely tested. While we would not be surprised by banking and institutional failures in a banana republic, we were all surprised by a run on a UK bank and by banking bailouts and forced marriages in the UK, the US, Iceland, Ireland, the Netherlands, France and Germany. After decades of leaving everything to the markets and market forces, we all realised that uncontrolled, un supervisors and ‘light touch’ regulated markets contained the seeds of their own destruction – just as Marx predicted those from the left might add. The last year has put on public display for all, but the blind to see everything that is wrong with uncontrolled, me-first, ‘there is no such thing as society’, greedy capitalism. Free market philosophers like Ayn Rand, who had inspired public figures and architects of the system like...
Alan Greenspan were proved to be wrong as the governments that the free marketers had all vilified as profligate and spendthrift had to step in to prevent a total collapse of capitalism. In 2008, at least Greenspan had the grace to admit that his adherence to free market principles and his relaxed view of regulation had been ‘flawed’.

We found out that the invisible hand was not as benign as many had believed because the growth we had all experienced was not based on sound economies where we lived within our means but on an unsustainable level of consumption that had generated mountains of debt, which was being re-bundled, recycled and sold on in the form of complex financial instruments that the fools who were buying them just did not understand. How many of us before 2007 had heard of a collateralised debt obligation? How many of us today know what one is? The housing market spiralled fuelled by cheap money and socially irresponsible lending by incompetently regulated financial institutions that just wanted to ‘sell, sell, sell’. You could not walk into a bank to pay in a cheque without being harangued by some hapless teller about changing your mortgage, buying a new financial product or buying insurance. Households borrowed more against illusionary house prices and financial institutions lent more and more as personal indebtedness ballooned beyond the £1.4 trillion level in the UK. For a brilliantly humorous explication of how this insanity came about, the reader should look at Satirists Bird and Fortune’s sketch on YouTube1. To use the jargon, almost everyone was ‘over-leveraged’ as people began to see asset markets – particularly the housing market – as one way bets that could only go up. To disguise the mess, banks started to develop techniques such as ‘off balance sheet financing’ which was cynically developed to circumvent regulations around the capital cushions that they were required to maintain and also to throw regulators off the scent. The apparent value of our houses increased, the bankers got their bonuses, the regulators slept on, the government collected the taxes and for the time, all was well with the world. And then, the dominos began to fall: Lehman Brothers; Bear Sterns; Merrill Lynch; Northern Rock; AIG; Fannie Mae; Freddie Mac; Fortis; HBOS; RBS; Kaupthing; Lansbanki; Glitnir; Anglo-Irish Bank.

It was at this point that many of us began to realise how fallible the people who were running these major organisations and institutions were. As Mezias and Starbuck (2003) were led to conclude,

“Most corporate decision making assumes that managers know what they’re talking about. But three decades of research, capped by our own recent studies, support what many people have long suspected: Managers often have badly distorted pictures of their businesses and their environments.”

How right they were: the banks had been lending to people and businesses that would never be able to pay the money back; they had assumed that commercial and residential property prices could only go up; they had bought financial instruments that they did not understand; they had business models that were based on utterly inept assumptions and what was most frightening, was that almost all of them had made exactly the same mistakes as they had driven their businesses hard to try to attain levels of growth that were unsustainable and which had ultimately undermined the stability of the entire economic system. In many financial services organisations, sales targets ranked higher than prudence and ethical, sensible lending was outstripped by predatory, stupid lending. Managerial short-termism and short-sightedness had had a massive social cost.

Some writers have even argued that the power of managers had grown unchecked through the 1990s and that the managerial elites that were managing large corporations
The only true wealth is the wealth of the mind

lost sight of what they were mandated to achieve: that is to run the company in the interests of share owners and other stakeholders rather than in their own interests. As one leading writer commented in the 1990s, ‘managers’ capitalism’ had supplanted ‘owners’ capitalism’ or as the economists would argue, there was now a huge principal-agent problem in the governance arrangements of many large organisations as executive power and pay spiralled out of control. A good example of what has happened to executive pay relative to the pay of mere mortals can be seen in a paper published by the Economic Policy Institute (EPI) in the USA. In 1965, the pay of the ‘average’ executive was 51 times that of the lowest paid increasing slowly to 78 times by 1978. In 2005, at the height of the latest boom, the ‘average’ US executive was paid 821 times more than the lowest paid worker and, remember, that was just the average executive. A second set of figures from the EPI revealed that, in 2005, the average executive in the USA earned more in one day than a worker on the average wage earned in a year. While some managers might be aware of Adam Smith’s writing on the Wealth of Nations, clearly fewer would have heard of his other book The Theory of Moral Sentiments, which emphasises propriety, prudence and empathy with the needs of others. It is a pity that Smith’s other book has not achieved the status or the influence of the Wealth of Nations.

One of the issues that has really concerned me as we have stuttered through the credit crunch is whether the educational system or the other ‘conditioning processes’ that managers and business executives have gone through have contributed to this herd-like and inept, but very self-serving managerial behaviour. Has the system we have produced to educate and train managers contributed to the problems we have all had to endure over the last year or so? I believe it has. Management education has been a contentious issue since its introduction into the UK universities in the 1960s following the Franks Report. It has come to be seen by most – if not all – vice-chancellors as a cash cow to generate student numbers and income from the UK and particularly from overseas. Some might argue that business education is also a device by which vice-chancellors visibly pander to the exhortations of governments of all persuasions for universities to ‘get close to business’ and to become more vocational. While businesses schools may have been successful on these narrow measures of success, it is less clear how effective they have been in enhancing the effectiveness and productivity of business organisations and on improving the quality of the human capital that is needed to manage and lead business organisations. Business schools have often prided themselves on giving businesses what they want when it is a moot point whether business does actually know what it wants. Many academics in business schools feel that academic values have ‘gone out of the window’ as they have been forced to pander to the demands of their customers (we do not seem to like the word students as much as we used to). In this case, there is a strong argument that the customer is not always right and does not know best. As academics have pandered to the demands of businesses, I would contend that academic rigour, critical thinking and intellectual diversity have been sacrificed to mammon. On all too many occasions, I have been affronted by the prevailing way that the term ‘academic’ is used in many business organisations. In business speak, academic is a synonym for useless and a synonym for impractical. Lectures and lecturers are often criticised by their students for being too academic and this had led many to dumb down their lectures, to abandon theory, to abandon robust analysis and to teach using platitudinous war stories geared to the ‘how to’ not the ‘why so’. Being the subject of student complaints is not a career enhancing move in the contemporary university.
There is also remarkable homogeneity in the content of most business degrees at both undergraduate and postgraduate levels: all have their obligatory doses of strategy, finance, human resource management and marketing together with a dissertation. The parent disciplines of economics and psychology are usually nowhere to be seen as these are often seen as too academic and definitely not sexy. How can you teach someone strategy so that they have a deep and rich understanding of the subject when they do not know basic economics? How can you effectively teach someone human resource management when they have no knowledge of the basic concepts and constructs of psychology and organisational behaviour? If students have insufficient knowledge of these parent disciplines, how can you teach these subjects other than at a level of superficiality that can only give the student a spurious sense of mastery of these subjects? Much of what passes as management education in business schools does not deserve to be labelled education as much of what is delivered is, in effect, low order training in that it is all about equipping aspiring or lower level managers with the sets of tools and techniques that they can uncritically apply often to the detriment of their employing organisations. Having studied the effects of organisational change on entire organisations and on the victims and survivors of change, I am truly staggered by how badly change is managed by people who appear on paper to be highly qualified professionals. Perhaps, there is some truth behind the allegedly apocryphal story of the chief executive of a large organisation who refused to employ managers with MBAs because of all the damage they would do.

Cynically, it could be argued that business students get exactly what they deserve as many (but not all) of them are remarkably instrumental in their attitudes to their own education and personal development. My experience is that too many business students, and especially those doing more vocational degrees, do not wish to be encouraged to think reflexively, reflectively or critically about current issues in their fields, they just want to be trained how to implement techniques from a menu of patent nostrums, many of which are conceptually flawed and of dubious practical value. One particular area where management education has suffered is in the realm of management research where students regularly demonstrate an inability to undertake robust, rigorous, high quality research that is relevant to the solution of business or organisational problems. I have always been of the opinion that academic skills, such as the ability to synthesise existing knowledge; to look for inconsistencies; to be capable of abstract thought; to be able to determine what does and does not constitute evidence; to be able to collect evidence and rigorously analyse it; to be able to develop and sustain an argument and to communicate complex findings and assess their significance for the choice of a course of action, are some of the most crucial skills that managers need. Yet, managers still persist in equating ‘academic’ with ‘useless’. I am regularly horrified by what gets presented as research at undergraduate, masters and even doctoral level. Many dissertations are lacking in theory; research questions are badly formulated; and students have clearly not engaged with the ‘heavy weight’ academic literature tending to rely too much on text books, increasingly on material of questionable provenance drawn from sources such as Wikipedia and on material randomly cut and pasted from internet sources. But if students are not taught in a way that will enable them to acquire these skills and to develop an empathy with academic values, can we really be surprised? It is very rare to see a dissertation these days that gives a practical business problem a sound academic and analytical treatment.
What is particularly annoying is that the community of management academics are far from being unaware of these problems. There are excellent papers by Ghoshal (2005), Pfeffer and Fong (2002, 2004), Pfeffer and Sutton (2007) and Van der Venn (1989, 2007) that discuss these issues in great depth and also pose some very important questions about the role and impact of business schools and the effectiveness of management education as it is currently being delivered. Unfortunately, the main corpus of management educators seems unaware of these arguments and it has not, consequently, accepted the challenges that these academics have laid down. Perhaps, the institutional cards are stacked against those management educators who want to do more than train instrumentally-oriented students mundanely to accept the plethora of fads and fancies and plausible sophistry that pervade the repertoire of so many management ‘trainers’ masquerading as educators. So, if this is the state of management education, should we be surprised at the quality of managers that this production system has produced? No. Should we be surprised with how badly the managerial elite has behaved and performed not only to cause the banking crisis that has affected all our lives, but also with how badly it has dealt with the societal, human and organisational fall out of the crisis? No.

I remember many years ago walking through the management section of the bookshop at Heathrow Airport. It was full of self-laudatory and insubstantial piffle which was being bought and read and – most worrying – influencing a breed of manager that did not have the critical or analytical skills to be able to identify absolute dross when they saw it. How many companies have spent thousands on engaging self-appointed gurus with books to sell to show them the way? I then realised that this is how fads such as business process engineering and a myriad of others had achieved a degree of contagion similar to HIV amongst a remarkably suggestible population of managers. It was then that I became committed to the view that an effective management education should be all about inoculating developing managers against these contagious diseases, which have decimated many organisations.

While this diatribe seems to lay much at the door of management educators, who have yielded to the instrumentality of their customers, and to the cynicism of vice-chancellors keen to milk the management market to keep their ships afloat, we cannot divorce management education from the prevailing ideological nexus within which it is embedded. Until the demise of Lehman Brothers, the rule of the market was in its ascendancy; the western world was happy to run on plastic; governments were coining in taxes and very unwilling to regulate the speed at which the goose was laying the golden eggs; and, we were happy to live in a fool’s paradise. Perhaps, capitalism had become one big Ponzi scheme? Just as were are having to rethink the relationship between government and the entire financial system that oils the wheels of capitalism and having to question how we were so stupid as to think that our fool’s paradise would go on forever, perhaps we need to rethink management education. Should we be focusing more on moral sentiments rather than the wealth of nations? Should we be educating students to think rather than to do? Should we be clearer about what separates education from training? Should we move to more of a liberal arts-based model of education than a vocationally-orientated model of education? The trick is to create a scholarship that is engaged with real world problems and issues with the engagement taking place at a theoretical and not a superficial level. Perhaps, we could begin our new world by introducing business and management students to some of Sophocles’ work: he argued that the only true wealth is the wealth of the mind.
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Notes
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Provocation: Business schools and economic crisis –
The emperor’s new clothes: learning from crises?

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Abstract: This paper argues that the lessons of previous crises have not been learned. Attempts to encourage the discussion and mainstreaming of business ethics in management education too often led to the emergence of incongruous parallel curriculum structures and a one-sided instrumentalist approach to learning about corporate social responsibility. When it comes to understanding governance of organisations, dominant agency theory and a focus on board composition also neglect a discussion of substantive issues. A proper agenda of responsibility will need a rethinking of underlying behavioural assumptions as well as simplistic governance prescriptions if both businesses and management educators are to avoid more crises and go beyond a shallow CSR agenda.

Keywords: business schools; economic crisis; management teaching; corporate scandals; business ethics; instrumental CSR; agency theory; governance codes.


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The corporate failures and scandals of the 1990s and early 2000s provoked a period of questioning and soul-searching. Then, scholars and policy-makers alike asked what went wrong and how can such failures be prevented in future. A few years on, and the same questions are again being asked, except this time in the context of a global financial crisis that started in 2007. To be sure, there are differences between then and now, not least in the scale and scope of the impact. But there are also startling similarities – an obsession with shareholder value and reckless pursuit of short-term profits, an emphasis on value distribution rather than on value creation, and the pervasive thought hegemony of liberal economics. In an incisive and heartfelt article published in 2005, made even more poignant by the untimely passing of its author, Ghoshal (2005) argued that business schools and management scholars should not only accept responsibility for their part in creating Enrons, but must also learn lessons from the corporate crises. Sumantra’s message touched the hearts and minds of many management scholars, as the subsequent tributes and debates testified (Gapper, 2005; Hambrick, 2005; Kanter, 2005; Mintzberg, 2005; Pfeffer, 2005). But have we really listened to Sumantra Ghoshal’s message? Have we fundamentally changed what we do – in teaching, research and practice? It would appear not. In this essay, we trace the lessons that emerged from the Enron scandals period and their subsequent impact. By doing so, the essay aims to highlight the temptations for and consequences of ‘quick fixes’ and simplistic solutions to complex issues. Our essay also takes up another of Sumantra Ghoshal’s central tenets of argument – that business schools must be at the vanguard of change in business and management practice. We argue that not only have we failed to live up to this challenge, but business schools often set poor examples when it comes to practising what we preach. Our essay concludes with some comments on the possibilities of achieving paradigm change.

One topic that emerged prominently from the corporate scandals was the engagement, or more precisely lack thereof, with business ethics. The failure of corporations was seen to be in part a function of unethical practices at the top. Business leaders were portrayed as liars, crooks and charlatans. The solution? Business school curricula need to include classes and courses on business ethics (Adler, 2002). Of course, the reality was and is much more complicated and complex. First, there was the question of where and how business ethics fits into the curriculum and, more importantly, what subject it would ‘push out’. At business ethics conferences, we compare our battle scars with the marketers, economists and, in the case of some brave souls, with the finance faculty. Gioia (2002, p.143) sums it up “…it’s a fight. It’s a constant fight.” – and this is at an institution that can rightly be proud of its world-renowned faculty in business ethics. Even when there have been successes in ‘getting’ ethics into the curriculum, there is still the problem of what Etzioni (1991) called ‘parallel structures’: students learn how to manipulate customers in a marketing course, or that profit maximisation is the ultimate corporate goal in finance classes and then listen to the ‘soft’ ethics lecturer talking about morality, justice and fairness. Why are we surprised that organisations exhibit similar compartmentalisations and disconnects? Sensitising students to ethical issues and educating them in moral behaviours does not require an add-on course in business ethics – it requires a fundamental reexamination of our comfortable assumptions about scientific amorality and a sea change in how we teach business and management (Ghoshal, 2005). Since Etzioni’s astute reflections in 1991, our subject area may even have regressed as studies of business school students before and after course completion have shown a weakening in moral character and values (Gioia, 2002). These parallel structure and paradigm problems are unfortunately not confined to business school
education. The development of management courses for doctors, nurses, engineers, lawyers and teachers is a huge growth area for many universities. Far from providing the platform for intellectual pluralism that such developments offer, we see a further entrenchment of utilitarian perspectives and economic paradigms (Bernstein, 2001). Professional ethics is being subordinated to the cost-benefit analyses of service delivery. And there is a further side to this argument. Even when we succeed in creating in students an awareness of ethical and moral dimensions (Hoivik, 2009), we often do not prepare them for the intense psychological and sociological pressures that they may encounter in the workplace. The downside of higher levels of moral reasoning may be that such individuals experience greater conflict between their personal values and organisational ones (Mason and Mudrack, 1997). But of course, this is not something new. History teaches us that morality and standing up for one’s beliefs may come at a heavy personal cost but can ultimately bring about profound social and political change. But we no longer teach our students history or politics or sociology.

Where does that leave us? A recent survey of business school faculty on the origins and roots of the current financial crisis provides some food for thought. Asked about what lay at the root of the crisis, 84.97% of respondents agreed it was finance, 75.59% agreed it was economics, 76.03% and 76.15% agreed it was due to corporate accountability and corporate leadership respectively, and 77.32% agreed it was down to ethics and ethical decision-making (Gudic and Rosenbloom, 2009). The authors of the report go on to conclude that: “It is a crisis of trust induced by diversity of personal ethics…individuals with alien ethics break the integrity of national (regulatory) system.” [Gudic and Rosenbloom, (2009), p.42]. Furthermore, respondents were strongly divided on the role of business schools in the financial crisis with 37.35% of respondents agreeing that we played a role, 43.37% disagreeing and 19.28% sitting on a neutral fence. The conclusion to draw from the data is that we have learnt very little indeed. Yes, the crisis was, amongst other factors, caused by unethical behaviour of business leaders but these were a few rogue individuals. The combination of inexorable market forces and individual deviance absolves business and management scholars from owning up to any responsibility. This is wrong. The problem today is still the same as described by Etzioni (1991), by Gioia (2002) and by Ghoshal (2005). We, as business school faculty, are as much part of the problem as we are part of the solutions, but it requires openness, dialogue, honesty and courage.

The social responsibility of organisations [or corporate social responsibility (CSR), as it is most commonly referred to] has been a second lesson that the corporate scandals taught us. In combination with a rising awareness of the environmental destruction caused by business activities, the corporate scandals highlighted the role of business in society and specifically the deleterious impact of organisational failure on customers, suppliers, creditors, employees and their local communities. The then United Nations’ secretary, Kofi Annan, in his address to the World Economic Forum in Davos 1999, outlined his vision of creating a balance between the economic, social and political realms where corporations accept responsibilities and are held accountable for their actions. Failure to do so, according to Kofi Annan, may not only jeopardise continued growth and prosperity but could destabilise globalisation at a very fundamental level. This vision later found its concrete manifestation in the ten principles underpinning the UN Global Compact agreement. There was an obvious resonance of the aims and principles of the Compact to Business and Management education, and thus a related
initiative, the UN Principles for Responsible Management Education (UN PRME), was launched. To date, 260 educational institutions worldwide have signed up to the UN PRME initiative and thus committed themselves to embedding CSR in their purpose, values, methods, research and relationships with others. In addition, numerous business schools offer courses and classes in CSR (sometimes combined with business ethics). Surely that means that we have learnt our lesson? Well, maybe not quite. The first question we have to ask ourselves is why so few? 260 institutions (and that includes associations) may sound impressive at first glance, but this is only a small fraction of the total number of business schools. For example, in the UK to date, 16 university business schools have signed up (17 if you count a corporately-owned one) – just over 12% of UK higher education institutions! And it is really not that difficult to join – there is no fee, you send a letter and complete a short questionnaire, and you commit to embed CSR in your organisation, you commit to report on and advocate CSR to your stakeholders. And this is where perhaps the nub is – commitment. It appears that even at such a simple level of showing commitment, business schools fail to set an example. But, you may say, even if we do not sign up to UN PRME, we still teach our students about CSR. Here we come to second issue – the content of what is being taught. Aguilera et al. (2007) remind us of what many scholars have discussed before – that the CSR agenda has different motives. These range from the instrumental (as a means to corporate performance ends especially in relation to shareholder value), to the relational (the search for legitimacy and collective identity), and finally to the moral motive (meaningful existence in the context of shared values and responsibility). Even a cursory glance at CSR syllabi suggests that whilst we make reference to the latter two, it is the instrumental motive that mostly pre-occupies content. More often than not, CSR courses are “sold” to students on the instrumental promise of CSR being a competitive differentiator for business, how CSR can be used to attract more customers, or how CSR-oriented firms weather crises better than their socially un-responsible competitors. This trend is also evident in research publications with numerous studies empirically investigating the impact of CSR on firm financial performance (Lougee and Wallace, 2008; Orlitzky et al., 2003). In sum, the aspirational, social and collective focus of the CSR agenda as outlined by Kofi Annan and many others has been hijacked by an economic calculus. The normative has given way to the instrumental. To argue otherwise is seen to be out of touch with corporate reality or as Kanter (2005, p.94) so nicely put it “…valuing all stakeholders, being socially responsible and caring about people sounded a little ‘pinko’ to business managers…”

The current crisis shows just how shallowly we have treated the lessons from a decade ago. The predictions of Annan, that the unfettered pursuit of profits without any sense of (social) responsibility can seriously destabilise our economies, has been frighteningly close to the mark. Whilst the intervention of governments prevented perhaps the worst of the financial meltdown, the social impact from company closures, mass redundancies, house repossession and possible forthcoming cuts in public spending on health and education are momentous. Are we going to continue ignoring this legacy?

The final lesson we want to discuss is that of governance. The failure of the Enrons was a failure of corporate governance, and reforms were needed. That much we can agree on. In an effort to prevent future failures, governments, often aided and influenced by academic research, developed legislation. In the USA, the Sarbanes Oxley Act (SOX) came into force in 2002. Many other countries developed Codes of Good Governance that were based on a ‘comply or explain’ principle rather than legislative mandate (Aguilera and Cuervo-Cazzura, 2004). In the main, these codes focused prescriptively on
the structure and composition of board of directors. Board independence from management, the separation of CEO and chairman roles, and structures and decision-making processes for monitoring executives and executive compensation were the main criteria for achieving better governance (Zattoni and Cuomo, 2009). But this focus on the means eschewed a debate about the ends of corporate governance (Huse, 2003, 2007). A taken-for-granted assumption was that investors, specifically shareholders, need to be protected from managerial excesses. Codes were informed by the theoretical bible of financial economics – agency theory. Yet, agency theory’s limited validity and the ambiguous empirical evidence are well-documented (Daily et al., 2003; Dalton et al., 1998) and its fallacies most elegantly debunked by Ghoshal (2005).

There are compelling alternatives to the agency theoretic view on corporate governance. The first one emerges if we simply re-think the nature and goals of firms. The maximisation of profits and their distribution to shareholders is only one view, and not a compelling one at that. Strategic management scholars have long argued that the goal of firms is value creation in its own right (Barney, 1991; Barney et al., 2001; Huse, 2007). Legal scholars have pointed out that the firm is not ‘owned’ by shareholders, corporations are legal entities in their own right (Blair, 1995). These alternative perspectives on the nature and goal of firms turn the short-termist, value distribution, shareholder-centred tenets of the mainstream governance debate upside down. The UK Combined Code is to our knowledge the only one code that takes a small step towards recognising this alternative view of the firm when it writes: “All directors must take decisions objectively in the interests of the company” (Combined Code, 2003, Section 1, A.1). Why do we not frame the governance debate in terms of long-term organisational value creation in the mutual interests of many internal and external actors?

The second alternative derives from a re-think about the behavioural assumptions of agency theory. Ferraro et al. (2005) very thoughtfully discuss the evidence that self-interested behaviour is today a powerful social norm, a behaviour that we learn. Theories based on the assumption of self-interest may therefore be self-fulfilling. Ghoshal (2005, p.82) argued that collectively, this body of economic theory has created an ‘ideology-based gloomy vision’. Applied to corporate governance, we should therefore not dismiss stewardship theory because its assumptions about ‘economic man’ are different from the norm (Donaldson and Davis, 1991). Rather, we should embrace it in our discourse to dislodge the hegemonic position of economic theories based on self-interest to avoid being “…trapped in unproductive or harmful cycles of behaviour that are almost impossible to change.” [Ferraro et al., (2005), p.21].

In addition to re-thinking the goals of firms and the underlying behavioural assumptions, we also need to question the simplistic governance prescriptions regarding structure and composition of boards. As Useem (2003) reminds us, corporate governance is about what and how decisions are being made by directors. So why do codes focus on composition of boards and not behaviours? A substantive empirical research stream has shown that there is no strong evidence of the relationship between structure, composition and performance (Dalton and Dalton, 2005; Dalton et al., 1998). Furthermore, studies that have focused on board interactions, team dynamics and actual board task performance have provided much richer and grounded insights into what makes boards effective (Huse, 2009). This new research agenda grounded in behavioural perspectives does not lend itself to simplistic stylised prescriptions that can be codified, but it does provide an actionable agenda for board practice (van Ees et al., 2009).
Despite the impassioned calls by some scholars to seek for alternatives to agency theory and its application to corporate governance, business schools and their faculty failed to put aside this bible (Ghoshal, 2005; Gioia, 2003). An apparent consensus between academics and policy-makers emerged regarding how to create good governance. The current financial crisis is a stark reminder that this consensus needs to be questioned and challenged. Codes and regulations have clearly not been the answer to solving the ‘governance problem’. One is reminded of Jean Piaget’s ground breaking work on cognitive development in children (Piaget, 1928). He observed that when a child cheated in play, the children introduced new rules of play, until the next incidence of cheating and so on and so forth. One exception was a group of girls: when rules were repeatedly broken, they stopped playing. After every corporate scandal and crisis, we have introduced new rules, regulations and codes, until they also got broken. Is it not time we fundamentally revisited the game we are playing rather than the rules?

In this essay, we have considered three specific lessons that the corporate scandals of a decade ago should have taught business schools and management scholars – the need to engage our students in debates about ethics and morality, the link between business and society and the imperative to think about governance. We argued, in a deliberately polemic fashion, that our learning from the past has been partial and superficial. The financial crisis that started in 2007 is, at least in part, a manifestation of the lack of deeper engagement with these issues. The question of whether to lend to people with poor credit histories or not even check is as much a moral one as it is of economic risk calculus. The rippling impact of the failure of financial institutions on customers, employees, other companies and wider society are painfully obvious. Despite adherence to governance codes, there was little real accountability, much less responsibility, in boardrooms. In business schools, we have made additions to the curriculum but not fundamentally changed the assumptions and behaviours of our students, nor have we derailed the theoretic and methodological hegemony in research. We have only put some new clothes on an old emperor. But there are rays of light. The reflections of influential business and management scholars like Ghoshal, Mintzberg, Pfeffer and many others have not only provoked a much-needed debate, they are also a manifesto for action. The financial crisis is a painful reminder that we ignore history at our peril. Finally, recent events have shown us that society looks to renewal and paradigm change. Barack Obama’s award of the Nobel Peace prize is not a recognition of achievement. As the Nobel Committee announced, it is a recognition of giving people hope for a better future.

References

The emperor’s new clothes: learning from crises


Provocation: Business schools and economic crisis – Narratives, scripts and schools: counter-scripts as a response to the credit crisis

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Abstract: Drawing on three different senses of ‘script’, I suggest two important and interconnected functions of business schools in the wake of the credit crisis. These relate to the role of business schools in analysing and representing society, as well as in preparing students for various roles in society. The credit crisis has surfaced some of society’s scripts relating to consumption and made their limitations all too apparent. This is an opportunity for those of us working in business schools to enable students to identify such scripts and develop alternative formulas for action: counter-scripts.

Keywords: business schools; economic crisis; credit crisis; scripts; counter-scripts; role theory; social schema theory; narrative.


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1 Three senses of script

Scripts are a subset of narratives, where narrative can be understood as a representation of events (Morrell, 2006, 2008, 2009). Scripts are habits of the mind that influence action in everyday settings. Identifying and disrupting scripts can lead to re-presentation, disturbing familiar patterns and prompting reanalysis. This is one basis for critique. There are three different though interrelated ways in which the concept of script has been used to explain behaviour in social settings: role theory, transactional analysis and social schema.

1.1 Scripts as an element of role theory

Role theory can be traced to George Mead’s social psychology and the symbolic interactionist account of social behaviour. In this tradition, meanings influence action and
interpretative schemes form the basis of identity. Roles are crucial to presentation of the self in the social world, and play a part in shaping each social context as well as being influenced reciprocally by that context. Use of ‘roles’ provides ready links to the vocabulary of the theatre in analysis of social settings (Berger, 1991). For instance, one way the credit crisis has been represented in the media is in terms of a number of characters – the hapless debtor, the greedy banker, the dishonest broker and so on. Role-taking describes how people learn about their selves and their place in society by adopting particular roles – for instance the behaviours and idiolects associated with particular professions. Since roles are defined through interaction and identified in a given context, role-making is the process through which expected behaviours are reinforced or questioned. Applying this to the credit crisis, the climate encouraging risk and short-termism in banking is one way in which various roles have been made or reinterpreted.

The sociologist, Erving Goffman, refined this account by introducing the concept of role-distance, which describes the potential gaps between the social expectation of an actor’s role, their level of commitment to that role and their actual performance. One illustration of role distance would be the incentive structures that reward agents of mortgage brokers purely on the number of mortgages sold, rather than their long term viability. This runs counter to lender’s expectations that the agent’s role is in part one of vetting their suitability as borrowers. Role-conflict can result where people have incompatible demands or construe their own roles in such a way that it does not fulfil social expectations, or potentially where change bring existing values into conflict with new patterns of order; combining merchant and retail banking under the same roof is one example of this. The extent to which role theorists believe people can make their roles varies. In one sense, a ready formula would suggest that those with less power have less scope to make a role or to exercise ‘improvisation’. Alternatively, the scope for actors’ freedom can be understood in terms of the scope they have to take on different roles. More functionalist or determinist accounts understand people purely in terms of their roles, which are seen as determining action in a way consistent with social norms (Abercrombie et al., 2000). From this perspective, to label behaviour as scripted would describe someone acting in a way laid down by social precept. Symbolic interactionist accounts allow actors to construct and negotiate their sense of self, and correspondingly offer greater scope for freedom of expression. Nonetheless, this is constrained by common expectations regarding social regularities in behaviour. Although this form of role theory signals the importance of interaction, a limitation is that structural constraints underpinning these interactions can be hard to articulate. Assuming anything other than a strictly determinist account of role theory, the influence of business schools can be one where scripts (an aspect of roles) are identified and challenged – for instance decreasing debt tolerance and revealing techniques of manipulation associated with mass consumption, identifying the problematic and distorting effects of pay mechanisms.

1.2 Scripts in transactional analysis

In transactional analysis, there is an even more explicit link to the aesthetic or theatrical sense of a script as being something that is acted out (Steiner, 1974). Unlike in role theory, which also uses the language of the stage, there is less scope within transactional
analysis for scripts to be constructed or roles to be taken up. The script represents ‘the blueprint for a life course’ (ibid, p.51), a plan, ‘formed in early childhood under parental pressure’ [Berne, (1975), p.32]. ‘Script’ is apt, given the emphasis within transactional analysis on the similarities between Greek tragedy and the more prosaic tragedies of modern life courses, which incorporate the classical elements of predictability and blind submission to fate (Steiner, 1974). The salient difference is that whereas the Greek heroes are subject to the will of the gods, ‘human beings are deeply affected by and submissive to the will of the specific divinities of their household – their parents’ (ibid, p.54). Schank and Abelson (1977, p.63) summarise this sense of script as unconscious and personal. Although these scripts are predetermined, and laid down in childhood, there is potential for previously unimagined, novel or unusual situations to invoke scripted behaviour where there is a strong emotional reaction to a situation and this reaction is repeated in similar though non-identical situations. Analogous situations can trigger previously laid down patterns of behaviour in a way Berne (1964) refers to as ‘games’ people play. Pathological personalities may find a home in high risk climates, or the need for power may be part of an attempt to exorcise childhood ghosts or a fear of inadequacy. Individuals could act out behavioural scripts in relatively infrequent situations, such as moments of crisis, where those situations have previously been imagined and behaviours in such situations have been mentally ‘rehearsed’ (Anderson, 1983).

Merton’s (1957, pp.421–422) idea of self-fulfilling prophecy, clearly relevant to the credit crisis in the form of a ‘run’ on a bank, can be understood as a kind of shared script. It also suggests future behaviours may be conditioned by how meaning is assigned to a particular situation:

“…men [sic] respond not only to the objective features of a situation, but also, and at times primarily, to the meaning [it] has for them... once they have assigned some meaning to the situation, their consequent behavior, and some of the consequences of that behavior are determined by the ascribed meaning.”

Lord and Kernan (1987, p.265) show that such behaviour need not be limited to well structured or programmable situations, since ‘degree of structure may depend as much on the development of worker’s cognitive systems as on characteristics of the situation’. On this unconscious and personal reading of script, there seems to be little scope for choice and freedom of action. Since such behaviours are the subconscious acting out of a life plan formed in early childhood, they are uninformed. It is not sensible to attribute blame, assign praise or punish individual behaviour wherever it is scripted in a transactional-analytic sense. One role business schools can play here is in challenging uncritical accounts of the work place as an ‘adult’, rational world, instead identifying the presence of banal yet pernicious evils such as narcissism, egomania and megalomania.

1.3 Scripts as social schema

The evolution of the term script in mainstream social psychology can be traced to the gestalt psychologist, Bartlett, who used schema to describe conceptual memory [Boden, (2008), p.250]. Many writers equate the two terms or see scripts as being a particular form of schema, event schema [Hogg and Vaughan, (2008), p.50]. In this sense, the schema is a basic building block of more complex psychological structures.
The influential child psychologist, Piaget, used schema to refer to abstract characteristics of thinking and problem solving (Mandler, 1984). Writing in this tradition, Schank and Abelson (1977, p.41) define a script as:

“...a structure that describes appropriate sequences of events in a particular context... Scripts handle stylized everyday situations... Thus a script is a predetermined, stereotyped sequence of actions that defines a well known situation.”

Likewise, Bennet (1993, p.142) identifies scripts as, “mental structures which organise information about...predictable actions, locations, roles and props that constitute events” and Gioia and Poole (1984, p.449) define a script as, “a schematic knowledge structure held in memory that specifies behavior or event sequences that are appropriate for specific situations”. Other, similar definitions can be found in Abelson (1981, p.717), Graesser et al. (1980, p.504), Lord and Kernan (1987, p.266) and Louis (1980, p.240). The key elements of all these definitions are that scripts are: context specific, event-based, structures for organising knowledge about well-known situations. These situations are well-known because they are impersonal or social, so scripts deal with cultural knowledge. Clearly, this approach to analysing social behaviour has multiple applications for understanding behaviours in the various organisational contexts relevant to the credit crisis. Yet this sense of script is harder to apply where the situation is novel, such as a moment of crisis, as rare or problematic situations are more likely to provoke thought and query (Louis, 1980; Gersick and Hackman, 1990; Weiss and Ilgen, 1985). Louis and Sutton (1991) see novelty as precluding or heavily restricting automaticity. They portray individuals as switching between two states of mind, ‘automatic processing’ and ‘conscious engagement’, the prime reason for individuals switching being a novel situation. Gioia and Poole (1984, p.453) state that novel situations:

“require intensive conscious processing to decide appropriate behavior and action. Such action involves little or no script processing – no script for behavior exists.”

It is also important to note that these kinds of script are not understood as merely habitual or automatic, in contrast to deterministic accounts within role theory or the transactional analysis sense of script. Instead, they organise comprehension when activated, ‘a script is a knowledge structure, not just a response program’ [Abelson, (1981), p.722]. On this reading of script, there is perhaps equally little scope for choice and freedom where situations involve invoking scripts. However, social schematic scripts are restricted to certain well-defined settings. Actions of particular importance or salience that are prompted by unusual or highly personal situations and thereby provoke conscious processing could not be legitimately described as scripted in this sense, though of course following the recipes of behavioural scripts could well precipitate crisis. Since scripts organise knowledge, and assist inference and choice, their influence may also go unquestioned, because they represent ‘habits of mind’ (Louis and Sutton, 1991). This means that ideas that are based on embedded scripts may not be critically examined, but remain as invalid or limiting assumptions. As a result, choices and behaviour could be influenced on a tacit level (Morrell, 2004a). One role business schools can play in relation to social schema is in encouraging greater critical awareness about the foundations of such scripts, which may be predicated on received notions of success and
consumption under capitalism. This could be allied with improved understanding of ethics, not as an abstract discipline but an important part of engaging with the world (Morrell, 2004b).

2 Conclusions

The discussion above analyses script from three theoretical perspectives. Role theory indicates the benefit of greater awareness of the interaction between roles and institutions and agency. Transactional analysis reminds us that not all behaviour at work is adult or rational. Social schema theory suggests scripts organise shared knowledge, and are embedded at a cultural level. In the context of the credit crisis, this suggests two important and interconnected functions which business schools can carry out. First, they can identify and surface scripts, perhaps relating to assumptions about the nature of society, organisations and success. Second, they can criticise these and devise and propagate counter-scripts. Table 1 organises these different senses into a single framework.

For each sense of script, the table offers a two-part descriptor. The first part comprises a key author associated with that sense of script and the second offers a short definition. Following that is a hypothetical paradigm setting for studying behaviour, where the given sense of script could be applied usefully. In ‘choice’ is a discussion of the implications of this sense of script for understanding behaviour, ‘freedom’ is a related aspect that addresses the potential for emancipation from scripted behaviour, both of these have implications for ‘accountability and personal responsibility’. The concluding rows address the relevance to the credit crisis and role of business schools. Together, this offers a framework for using scripts to explain the credit crisis, and also to identify how business schools can respond.

<table>
<thead>
<tr>
<th>Sense</th>
<th>Role theory</th>
<th>TA</th>
<th>Social schema</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paradigm settings</td>
<td>Interactions with institutions or professionals</td>
<td>Alcoholism, patterns of abuse and dysfunction</td>
<td>Career choices, consumption activities</td>
</tr>
<tr>
<td>Choice</td>
<td>People can choose (take) and improvise (make) roles, within limits defined by social norms and structures</td>
<td>People act out and repeat behavioural sequences – playing the same games</td>
<td>People behave typically in well-known situations without consciously choosing</td>
</tr>
</tbody>
</table>
### Table 1  Scripts and schools (continued)

<table>
<thead>
<tr>
<th>Sense</th>
<th>Role theory</th>
<th>TA</th>
<th>Social schema</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freedom</td>
<td>Limited by our shared understanding of a role and patterning in behaviour and discursive barriers (e.g., medical jargon)</td>
<td>Without help or insight people may be condemned to their fate, intervention can be like a magic spell</td>
<td>More freedom in situations where people do not have behavioural scripts, freedom is limited if their decision frame incorporates such scripts unconsciously</td>
</tr>
<tr>
<td>Accountability and personal responsibility</td>
<td>It may be impossible to separate role and person</td>
<td>People cannot be held accountable for scripted actions</td>
<td>People are accountable in many situations</td>
</tr>
<tr>
<td>Relevance to credit crisis</td>
<td>Unchallenged status of financiers</td>
<td>Pathologies relating to narcissism, risk</td>
<td>Unsustainable expectations of consumption, tolerance of debt</td>
</tr>
<tr>
<td>Role of business schools</td>
<td>Critique of professions, develop critical insight, e.g., in how language is a resource, understand links between institutions and agency</td>
<td>Help students to identify that work is not all adult or rational, case studies of narcissistic or megalomaniac leaders</td>
<td>Challenge assumptions and values of mass consumption, drawing on evidence and case studies, teach greater understanding of ethics as part of lived experience</td>
</tr>
</tbody>
</table>

**References**


Narratives, scripts and schools


Provocation: Business schools and economic crisis – We are all critical now: but critique of what, for whom?

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Abstract: This paper argues that existing critical dimensions of discussions in business schools are not always recognised. The theory and practice debate oversimplifies and unnecessarily polarises each view when both need questioning. Transforming management education involves difficulties, but must shift to more of a focus on encouraging managers to be critical readers.

Keywords: business schools; management teaching; critical management studies; CMS; critical marketing; management practice; management theory.

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Biographical notes: Michael Saren is a Professor of Marketing at Leicester University, UK. He was a Founding Editor of the journal Marketing Theory and a Co-Editor of Rethinking Marketing (1999, Sage) and Critical Marketing (2007, Elsevier). His introductory text is Marketing Graffiti (2006, Elsevier).

1 Introduction

The editorial ‘provocation’ article is entirely correct in its assertion that ‘business schools exist to help provide employees who are informed and enthusiastic about business and to provide ideas and to undertake research which help business function ‘better’’. This begs the question of what ‘better’ means however. It may mean for example better service for customers or better conditions for employees or better contribution to society. Although it may be true that many in business might interpret ‘better’ as more profitable, efficient or valuable, as the column in The Economist illustrates, following the credit crunch crisis, even some of the ‘pro business’ lobby argues for a more sceptical, critical, even cynical approach to management education.

“The real question is not whether business schools need to change, but how… In particular, they should foster the twin virtues of scepticism and cynicism. Graduates in recent years, for example, seem to have accepted far too readily the notion that clever financial engineering could somehow abolish risk and
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uncertainty, when it probably made things worse... Business schools need to make more room for people who are willing to bite the hands that feed them: to prick business bubbles, expose management fads and generally rough up the most feted managers. Kings once employed jesters to bring them down to earth. It’s time for business schools to do likewise. (The Economist, 24 September 2009)

Nor is there unanimity amongst the teachers involved that management education in universities should or does always follow a straightforward pro business agenda. This is not simply a feature of critical management studies (CMS), which the provocation argument does not fully reflect, illustrated by scholars such as Alvesson and Willmott, (1992, 1996), Alvesson and Deetz (2000), Parker (2002a) and Alvesson et al. (2009). For instance, although Van de Ven and Johnson (2005) make the case strongly for practice engaged scholarship and research for business management academics, they also make it clear ‘that such engagement revolves around critical dialogue and independence rather than codification and dissemination’ (Wensley, 2007).

Whatever the current state of the critical tendencies in university management education, the provocation paper does highlight the fact that there remains much more to be done, even if there were no economic crisis. Critical research on management ‘can equip students, managers and other practitioners with concepts, ideas and understandings that act as a counterweight to the ideological indoctrinations and functional imperatives encountered in corporate settings’ (Alvesson and Willmott, 1996). Certainly, the study and teaching of management has to move beyond the structure which has traditionally been imposed on it according to the so-called core functions used in companies – e.g., marketing, finance, HRM, operations, strategy, IT. Even if we were to remain primarily concerned with managerially-oriented approaches, we still need to move beyond these ‘old’ functional categories and start to view afresh how companies and managers go about working and thinking in their businesses. Apart from anything else, the normative concepts are highly militarised, adopting the language of strategy and tactics, campaigns and offensives, intelligence and planning, control and implementation, targets and targeting, market penetration, winning customers, beating competitors.

But how do we, critical educators, counteract this deadweight of management dogma masquerading as scholarship? I suggest that simply countering normative managerial concepts and theories with critical concepts and theories is not in itself sufficient. There is a more fundamental problem with the way that management academics regard theory itself.

2 The problem with theory

The separation between theory and practice as the two territorial domains of academics and practitioners effectively sets the two in opposition to each other. This culture of the gap between theory and practice has various, largely negative effects. First, this is an oversimplification (NB – on the part of academics), which sets theory and practice against each other conceptually. It elevates the role of theory over practice and infers a notion of improvement by imbuing practice with theory. Second, this has distorted the business school’s relationship with managers by suggesting its role is to provide practitioners and students with a ‘toolkit’ of concepts, theories and models, with which to ‘improve’ practice. Third, the task of the academic is defined as teaching
students/managers these tools and how to apply them. Fourth, valorising theory over practice downplays, if not excludes, the role of self-development, judgement and practical skills as well as that of critique, which if emphasised at all, is conducted in theoretical, abstract and self-referential ‘academic’ terms.

Another consequence is the abstraction and ‘removal’ of the world of theory – and thus the academy – from the world of practice. It is useful to reflect briefly on why and how theory occurs. Heidegger (1962) explains the division of knowledge of the world as a consequence of the ‘withdrawal’ of the philosopher or scientist from direct involvement in the day-to-day affairs of the world. On the one hand, the creation of contemplative time and space is necessary in order to reflect and theorise in a more abstract, epistemic manner; on the other hand, the separation of the scientist from worldly activity results in a tendency to reductionism as the context and the phenomenon studied becomes increasingly formalised, segmented and dissected.

According to Heidegger (1962), lying behind this distancing of the scientist or researcher from the world of the researched was a change in the function and form of language itself. This shift occurred with the emergence of philosophical or scholastic use of language which shifted away from – in modern parlance – ‘telling it like it appears’, i.e., a manner of speech which directly presents an event, a story, a phenomenon. In contrast, the academic use of language seeks to present the object of enquiry as more than how it appears, a language which presents it in relation to or in terms of its categorisation, theorisation and relation to others. This academic use of language is required in order to develop a theoretical, abstract and epistemic form of knowledge, which aims to reveal deeper truths beyond how things may appear. Thus the discourse of scholarly discipline is necessarily separated from the appearance of the subject, as indeed is the scholar. This separation process is manifested in management research through (often unconsciously) recognising a method or a concept as constituting management itself. In many ways, these concepts and methods become the de facto objects of inquiry in studies of business practice.

On the other hand, there is common agreement that theories offer explanations of the physical and social worlds around us that can lead to deeper understandings of how and why things happen in the ways that they do. At its most basic theory is really an organised way to think about a topic (Sutton and Straw, 1995). In focusing research on theoretical issues however, business academics have tended to look at the logical, objective side of management and have overlooked the emotional, subjective side that being a manager actually involves. Furthermore, the gap between theory and practice can be perceived as one that perpetuates class elitism and supports dominant class interests. That is why we also need to train managers to be suspicious of theory (Maclaran et al., 2009). The building blocks of theory are its underlying concepts and definitions, the unstated assumptions that are often normative and shared amongst a particular, and often privileged, group of individuals. Just like the use of metaphor, theory can both broaden managers’ minds and tie them into particular ways of thinking, skewing our perspectives in ways that often go unquestioned and unrecognised. There is often a bifurcation between theory and practice, with the former being located in remote (and privileged) academic ivory towers, whilst the latter is relegated to the mundane (and de-privileged) realities of everyday experiences (Svensson, 2007).

This is not to argue that the alternative to an emphasis on theory should simply be more emphasis on practice, or more action research or application issues or less ‘mode 1’ and more mode 2 type research (Tranfield and Starkey, 1998). And certainly not to argue
We are all critical now: but critique of what, for whom?

for ‘no theory’ (Parker, 2002b). One task for the critical projects to reevaluate the role of concepts and theory and to question the categories of theory and practice themselves. For example, one notion that requires urgent attention from critical scholars is the concept of relevance, which is used again and again to delineate what research and teaching is ‘appropriate’ (or should that be appropriated?) in management. This emphasis on relevance is a symptom of the dichotomy between the concepts of theory and practice which the management academy has promulgated.

There are also other reasons in addition to problematising theory why management education requires a thorough critique. In the next section, some examples are briefly discussed which indicate specific ways in which an element of critical pedagogy can be introduced. Of course ideally a much more radical transformation of management education is required, because at present our teaching is preparing students for a world that will never materialise.

3 Transforming management education

Management education is one of the main factories of the marketing practitioners of the future (Alvesson and Willmott, 1996). So how can we integrate critical studies more thoroughly in business school curriculum? One obvious way is to broaden the reading lists to cover classic critical authors that might have something to say about management, politics and society (e.g., Marx, Horkheimer, Adorno, Marcuse, Bourdieu), but one obstacle is that this literature has little perceived relevance by students to their future tasks as managers. They may ask pointedly: “Who would employ me as a manager if I were critical towards what the company does?”. Despite the call from The Economist quoted above for more critique of firms methods and ethos, the answer is probably ‘very few’. Another illustration is the question asked by a group of international MBA students when the instructor was discussing the buying behaviour of poor consumers (see Hill, 2002). “Why do we need to know about marketing to the poor?”, asked these future leaders of multi-national business; “they don’t have any money”.

Nevertheless, critical management education must aspire beyond providing students with the means to fit into organisations as ‘good’ employees. It must enable them to develop self-esteem, courage and intellectual strength and a sense of agency in order to challenge the orthodox managerial role, organisational group-think and the prevailing role of business in society. This issue neatly encapsulates the conditions in business schools and universities in Europe and USA which have undergone a thorough marketisation during the last ten to 15 years (Lowrie and Willmott, 2005). Students have been re-defined as customers who demand certain knowledge from teachers, who have become service providers. Student evaluations are employed to follow up on the quality of the courses and teachers, with quality measured in terms of customer satisfaction. Teaching skills and intellectual capacity are then often confused with student popularity. What would be a better example of an object of critique than management education itself? Management students could begin to engage in critique by interrogating the business orientation, marketisation and consumer culture now imposed upon university education in general, with which the business schools are more than complicit.

Another set of questions that go to the very heart of the critical management project are: why are we writing, to whom are we writing and for what purpose? An important
aspect of the critical management project lies outside the emancipation of the exploited (Hirschman, 1993), illiterate (Adkins and Ozanne, 2005) and those denied voice (Spivak, 1988). The transformational project also requires critical management educators to reach out and engage with those groups in society who actually conduct managerial activities, however these are defined (Alvesson and Wilmott, 1996). Among other things, this enterprise involves the transformation of the management practitioner, from a doer to a reader (Saren and Svennson, 2009). Improving the manager’s capacity to ‘read’ requires developing their competence to interpret their work and role in society, i.e., to read critically. This involves them learning a reading style that attempts to unravel different layers of meaning and recognise contradictions and dilemmas, enabling the practitioner to face these without hiding behind management theories and models.

This notion may be dismissed by some critical colleagues with disdain, but we can define a reading manager as one who can and wants to read critical marketing management literature, who engages with academic discourse, reads journals and books, visits conferences and takes part in seminars. They might even write about their self-reflection and introspective critique. A major barrier to this is the publication system based on restricted journals with small readerships, which offers little for the practitioner. If a transformation of management practice is to be realised, the social and political practice of publication must also be radically altered to reformulate what it means to ‘go public’, beyond prestige, career and top journals; and beyond the university classroom.

References
We are all critical now: but critique of what, for whom?


Provocation: Business schools and economic crisis – Why blame the business schools?

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Abstract: In his paper, Michael Haynes suggests that the way managers are educated has been a contributory factor in the current financial crisis. This paper argues that there are three much more important and powerful influences: economists, bankers and regulators. In examining the contribution of these three groups to the current crisis, their role in the rise and subsequent collapse of the so-called Celtic Tiger is also examined. It is argued that recent events have once again exposed major weaknesses in liberal capitalism and that if future financial crises on this scale are to be avoided, a way must be found to penalise failure and to regulate financial institutions effectively.

Keywords: business schools; economic crises; financial crises; economists; bankers; regulation; regulators; Celtic Tiger; liberal capitalism.


1 Introduction: the blame game

Whether or not what managers are taught has been a contributor to the economic malaise that is now afflicting the western world is a timely question, but in any attribution of cause for the current crisis in the world economy, there are several stronger candidates than the pedagogy of and values promulgated by, business educators. Specifically, the roles of economists, bankers and regulators, many if not the majority of whom will not have had a business school education, need to be examined. It is the economists who provide the theoretical framework within which liberal capitalism and business education operate, it is the bankers who are a position to do serious damage to the financial system and it is the regulators who have responsibility for ensuring that bankers do not get out of control. When compared to these groups, the collective impact of other managers, even CEOs, on the current crisis at least, is peripheral.

We will start with the economists.
1.1 The economists

The focus here is not on economics which is a perfectly reputable discipline, but on a certain class of economists who influence government policy via the media, through lobbying, as political advisors or from a position of authority. Such economists often have two defining characteristics. One is a formidable confidence in their current analysis of events and/or predictions; the other is an ability to forget their previous miscalculations. Both characteristics are important. The first because people, including both politicians and the public, are more likely to be influenced by the opinion of others when such opinions are pronounced with certitude, the second because were economists who made major misjudgements to learn the appropriate lessons in humility, the number of such economists would rapidly approach (though it might never quite reach) zero.

Examples abound. One of the most famous is the 364 economists in the UK, including a large number of leading academics, who in 1981 signed an open letter to *The Times* denouncing the policies of the then Prime Minister Margaret Thatcher and her Chancellor Geoffrey Howe as having ‘no basis in economic theory or supporting evidence’ and condemning these policies as likely to lead to economic instability (Booth, 2009). One of the few British economists who did not agree at the time was the late Sir Alan Walters, Thatcher’s own economic advisor. But even he was later to forecast, in 2002, that the Euro would collapse under its own internal contradictions by 2007 (The Internet Forum, 2005). In Ireland, the most severe property price crash and subsequent recession in the history of the state was preceded by a series of economists predicting a soft landing after a property bubble that had driven prices up by in excess of 300% over the preceding decade.

Harry Truman reputedly asked for a one-handed economist (*The Economist*, 2003), but the problem is that economists differ rather than that individual economists vacillate. This readily allows politicians to find an economist who supports their ideology. When economists who influence those who are in power are wrong, citizens suffer. When such a person is in a position of real power, such as Alan Greenspan was from 1987 to 2006, getting it wrong can be calamitous. Greenspan is a particularly interesting case. His policies have been heavily criticised by many other leading economists. Ideologically wedded to the concept of free markets, he opposed all forms of regulation including regulation of derivatives. When the house of cards that was the sub-prime mortgage market collapsed in 2008, he made a partial apology saying that the collapse had exposed a ‘mistake’ in his 18-year free market policy (Clarke and Treanor, 2008). By that time, unfortunately, the damage was done.

The fissiparous behaviour of economists is well illustrated in Ireland where there has been a heated debate over the government’s proposal to bail out the banks by setting up a National Assets Management Agency (NAMA) to buy out their property loan books. On the 26th August 2009, 46 academics, most of whom were economists, (out of total of about 250 who were invited) wrote to *The Irish Times* condemning the government’s proposed approach as flawed. Other economists, including the government’s own economic advisor (another academic) disagreed. The reality is that no Irish economist or any of the other experts involved knows whether NAMA will work or not. Forecasting its success or failure depends on many assumptions about future events. Ironically, one of the most Jeremiad and persistent critics of NAMA is amongst those who, back in 2006, had confidently predicted a ‘soft landing’ for the boom. The Irish Government has chosen
to ignore the critics and adhere to its proposals. In ten years from now, we may know who was right.

A small number of economists did warn of the impending crisis and some suggested prophylactic measures to diminish its worst effects (in the Irish case suggestions included the removal of tax incentives for development and a property tax). Well-intentioned as these were, the politico-economic problems were by then too embedded and for too long to avoid the impending crash. Many more economists were at best silent or happy to be cheerleaders for the boom. In some cases, failure to see the obvious was ideological (there was, after all, the efficient markets hypothesis). In other cases, it was because it was not what their paymasters wanted to hear. How many economists working for a financial institution have ever publicly predicted financial meltdown? After a number of decades during which US capitalism had created an ever more extreme maldistribution of wealth (Bartels, 2009), but an illusion of increasing prosperity built on a mountain of debt, too many economists saw what they wanted to see and corporate executives were content to go along for the ride.

1.2 The bankers

The second contributing group to the current problem is the financial services industry. If economists have provided the theoretical justification for the excesses of the past 50 years in general and the past 15 in particular, it is the financial services industry that has done much of the serious damage. In a recent study, Philippou and Reshef (2008) show that the wages in the US financial services industry were high relative to other groups in the period leading up the 1929 crash and into the 1930s after which they fell until the deregulation of the 1980s when they rose rapidly again. Particularly, striking is their comparison of wages in financial services to those of comparably qualified engineers. The rewards available in the financial services have unsurprisingly drawn in many of the top graduates away from real engineering into the financial variety.

Three forces behind the current financial crisis have been extraordinary levels of greed, the decoupling of risk and reward and financial engineering. There is no question but that innovation in financial services has delivered considerable economic benefits. Many derivatives are valuable tools for risk management and alternative financial instruments can be used to provide risk capital and financing that traditional bankers eschew. Unfortunately, the purpose of much financial engineering is not to make financial markets more flexible, offset risk or provide forms of finance to those who might not otherwise have access to it. A sizable segment is about enriching the few at the expense of the many. In this manifestation, financial engineering is a zero sum game. Money is made by reducing the wealth of others, not by creating economic value.

Back in the 1970s, some far sighted commentators warned about the risks of this type of manipulation and particularly of potential damage to otherwise healthy companies. One of the best known accounts of this type of engineering is Barbarians at the Gate (Burrough and Halyer, 1990) which catalogued the process whereby the highly profitable RJR Nabisco was reduced to a financial football over which private equity firms fought. One aspect of this story is how the managers who instigated the management buyout that was to make them (even more) rich lost control of the process to the more skilful and ruthless financiers. A more recent example of the damage caused by financially driven ‘value creation’ is Eircom, the Irish telecommunications company. The former state company, Telecom Eireann, was privatised by the Irish Government in 1999.
Within two years, it was taken over by a group of wealthy investors who took the company private, loaded it with debt and refloated it on the stock exchange at considerable personal profit. Since then, the company has passed through several different owners, at each stage acquiring more debt and making money only for those who bought and sold it (including, it must be said, those employees in the employee share ownership scheme). No new products were created nor customers added nor profits increased as a result of this leveraging. The cost was borne initially by the small shareholders and since by the customers as a debt laden Eircom did not have the money to invest sufficiently in new products, notably broadband.

In RJR Nabisco and Eircom, the principal losers from financial engineering were the small shareholders. When it comes to banks, such engineering can threaten the entire financial system. Almost exactly a decade before the subprime crisis there had been a narrow escape when Long Term Capital Management (LTCM) collapsed (Lowenstein, 2000). LTCM believed that they had a mathematical model which would enable them to money out of money at no risk. For four years, this fund gave an annual return of 40% before falling over a cliff in 1998 when they encountered what Taleb (2007) calls a black swan event, in this case, a default in the Russian bond market. The LTCM collapse came close to bringing down the entire US banking system in 1998. The lesson from LTCM was a simple one: no financial entity should ever be allowed to become big enough to fail. This lesson was not learned then and there is evidence that it is not being learned this time around either.

By the 1990s, much banking had become a form of giant casino (Lewis, 1989). Bankers even talked about placing bets. The rewards for successful traders were enormous, million dollar plus bonuses were routine. That so much money could be made from such unproductive activity should have unsettled at least some economists, but again the profession has been strangely mute. A few people have taken a stand, perhaps most notably in the UK Lord Turner who criticised the financial services for engaging in ‘socially useless’ activities (The Guardian, 2009) [and who was himself immediately and roundly criticised for his temerity by a large number of economists and financiers (Jenkins and Parker, 2009)].

Today, a substantial part of financial services industry continues to be a business where the players gamble with other people’s money, take a hefty share of the profits if they win, but do not share in the losses if they lose. Of course investors need to understand the risks, but the way that individual banks are allowed to operate breaks the link between risk and reward which is the core of healthy free market economics. And as always, in the worst case scenario, the taxpayer will step in. A banking system with these characteristics actively incentivises high risk behaviour and increases the probability of systemic collapse. It is clear from history that the banks themselves are quite incapable of preventing this from happening, so if there is to be control it has to come from the regulators and it is to this third group we now turn.

1.3 The regulators

More than one commentator has suggested that capitalism is a game that needs adult supervision. Few politicians beyond those on the hard right would agree with Rand (1957) that a modern society should run on the basis of the survival of the fittest, so regulation is needed. Regulation involves two sets of actors – those who set the rules and
those who enforce them. The problem is that, even where governments set the rules, regulation is tricky and it easy to create perverse effects. The attempt by US Governments in 1993 to cap CEO salaries led to the development of stock option schemes which in turn incentivised undesirable behaviour such as short term thinking and stock price manipulation. Regulation also imposes administrative burdens, a complaint that has frequently been made about the Sarbanes-Oxley Act. Globalisation is another complication. When countries enforce high standards, companies can move to other more tolerant jurisdictions.

However, difficulty is no reason for avoiding the issue (Rajan, 2005). In the 19th century, large monopolies, cartels and trusts emerged which sought to exploit their position to create supernormal profits and suppress emerging competitors. Governments realised that this was not in the public interest and today, there are strict competition laws which seek (if not always successfully) to prevent the emergence of monopolies or even dominant market players. The challenge in the 21st century is to eliminate another form of toxic entity, the bank that is too big to fail. There has been much debate about the decision by the US Government to let Lehman Brothers fail (The Economist, 2009), but arguably, the benefits of lessons from this, were they to be learned, would outweigh the economic damage caused. The primary lesson is that in a diversified market economy, no single entity, be it bank or car manufacturer or airline, should ever be too big to fail. A second lesson that the core commercial financial system is too critical to be a casino. Banks need to be divided into two categories: a highly regulated group which is core to the economy and those which may be subject to less rigorous regulation, but whose failure will hurt nobody, but the employees and shareholders. In Kay’s phrase, we need to separate the utility from the casino and to ensure that the casino banks cannot bring down the system either by building mountains of debt on molehills of capital. That will require some more radical regulation.

Then the rules need to be properly policed. The Irish Financial Services Regulator had ample authority to rein in bank lending as the Irish asset bubble expanded out of control after 2001. It failed through a mixture of incompetence and being too close to the banks to be objective. Stronger accountability would help. As with bankers, regulators often do not pay the price for failure. Senior managers who destroyed billions of pounds of shareholder value in Lehman Brothers, Lloyds, RBS, Citibank, Bear Sterns and AIG walked away with large payoffs and generous pensions. In Ireland, the Financial Services Regulator, responsible for controlling the behaviour of the Irish banks failed utterly in his duty. The cost of this failure included putting many thousands of small shareholders who relied on bank dividends for their pensions into near penury. The regulator himself took early retirement – with a large lump sum and on a generous state guaranteed pension. It is necessary to end a system where too many people on both sides of the regulatory divide walk away with their reputations in tatters, but their bank accounts intact.

2 Conclusions

Business, like any other branch of history has always thrown up heroes and villains. There are great companies, great leaders and great managers and there are managers and leaders who, through bad luck, incompetence or poor judgement, fail. Many scholars
(e.g., Tedlow, 2001) have sought to distil out what it is that makes great managers. Great or run-of-the-mill, managers are humans and will tend to play the system; they will work within whatever the rules allow including where the rules allow and reward dysfunctional behaviour.

Capitalism should be about rewarding those who create genuine wealth and economic value and not rewarding those who do not. Liberal capitalism has drifted from these precepts and too often gives excessive rewards not only to those who do not create real wealth, but also to those that destroy it. At an abstract level, this is a task for the economists. It is they who set the stage. At a practical level, it is the responsibility of the regulators. It is they who set the rules. It would be nice to think that in future MBA students would be taught that the objectives of business included the creation of wealth for the shareholders and the community and were not simply about the enrichment of the managerial class. But turning that particular ship around, if it can be turned around at all, will take a generation. Most professional economists come up a different educational route as do most politicians and many bankers. How many members of the House of Commons or the Irish Dáil have business or managerial training? In the case of Ireland, it is a very small minority. So any effect of revolutionising business education will not only take a long time to percolate, but may not in the end change that much unless those who have the greatest influence in the system can be reached.

In summary, the problems with current liberal capitalism are many, but a number of things stand out as being significant long term contributors to the crisis of 2007–2009:

1. The failure to punish failure. This applies mostly to the top, from the chief executives who wreck companies and lives to bankers who manage to destroy investors’ wealth whilst preserving their own.

2. This is linked to the decoupling of risk and reward, particularly for the rich and powerful. The small man or entrepreneur whose business fails pays the price; too many failed senior executives and bankers do not.

3. Failure to prevent systemic risk. It is not just that government regulation of banks is inadequate, it is that the banks should never have been allowed to grow to such a size on such a small capital base that their failure could threaten the entire financial system.

4. The large rewards for unproductive activity. It is ironic how some states which tightly regulate gambling for the small punter allow bankers to gamble on a massive scale and with other people’s money.

Writing in The Guardian on the 30th October 2009, former Soviet Premier Mikhail Gorbachev suggested that “ultra liberal capitalism needs its own perestroika”. Liberal capitalism has created enormous wealth, but it has not distributed that wealth well, it has caused serious problems for the environment in so doing, it has failed to lift many out of poverty even in wealthy countries and it has evolved financial systems which can fail catastrophically. This article has only considered the last of these problems and argues that there are three groups that are central to stopping this happening again. Unless economists, bankers and regulators change their behaviours, little in management education is likely to be of much help.
References


Governmentality and the creative class: harnessing Bohemia, diversity and freedom for competitiveness

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Abstract: Richard Florida’s works are the holy writings of the ‘creative economy’. Some commentators have stressed the elitist, insidious neo-liberal implications of this new ‘class’ discourse. Drawing on Foucault’s concept of governmentality and the framework introduced by Dean, we study:

1 what is being governed: the creative class… and everyone else
2 how government is achieved: through the introduction of the three Ts (technology, talent and tolerance) and the correlations established between them and economic success
3 who we become when governed: workaholic, consumerist and apolitical ‘Bohemians’ who value individuality, meritocracy, diversity and openness – and flexible immaterial labour, working in increasingly precarious conditions
4 why we are governed this way: because being part of the creative class is both socially worthy and personally desirable.

These norms are instrumental in the reproduction of a deeply unequal economic and social system, designed to exploit both the conspicuous winners and the excluded losers.

Keywords: Richard Florida; creative class; governmentality; competitiveness.


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1 Introduction

“The creative sector… it is the leading defining force for change, it creates competitive advantage. It is changing everything, the way we dress, the way we work, what kind of communities we live in, it’s blurring the boundaries between home and work, it is changing the way we use our time, it is changing our society.” (Florida, 2006a)

In the omnipresent contemporary discourse prophesising and celebrating the advent of the ‘creative economy’, creativity is claimed to transform the economic landscape and the practices of contemporary societies. At the centre of this ‘defining’ makeover towards creative capitalism stand the writings of Richard Florida. In Florida’s (2002, 2005, 2007) view, the world is in the midst of a sweeping transformation: organisations are moving from the relatively dull practices of the service economy towards a cool and caring creative economy, one where organisations generate wealth by harnessing intellectual labour, intangible goods and human creative capabilities. These alleged sweeping and all-encompassing changes are claimed to necessitate new strategies of government that support the upgrading of the workforce into a creative class as ‘our workplaces are either consciously or unconsciously expecting creativity as a component of our processes and outcomes’ [Gibb and Waight, (2005), p.273].

Discursively speaking, a Floridaesque ‘creative capitalism’ [also encountered in, for example, Bilton (2006), Hartley (2005) and Landry (2000)] produces a new subject position that is articulated around the notion of creativity; a new subject who is cooler, hipper, more urban, more tolerant, more talented, more caring and humane and, most importantly, more competitive than in the previous articulations, including the still trendy ‘knowledge economy’. This new creative ethos has hitherto been confined to the most developed Western economies – and, as explicitly stated in Florida’s writings, to about a third of their population, forming the creative class. However, Florida is no less explicit in claiming that more and more people from the other ‘classes’ (especially what he calls the ‘service class’) and the rest of the world could climb the creative ladder. Creativity is increasingly seen as ‘generated by employees in any job and at any level of the organisation, not just jobs that are traditionally viewed as necessitating creativity’ [Waight, (2005), p.151]. In creative capitalism, it is seemingly possible that every worker will eventually be part of the highly competitive creative class. Although it has not been as touched as could be expected by the ‘creative wave’ stimulated by Florida – especially in comparison with regional and urban studies – management literature has been eagerly researching how to harness and tap into the creative potential of the workforce (see, e.g., Bilton, 2006; Gibb and Waight, 2005; Madjar et al., 2002; Mumford et al. 2007; Perry-Smith and Shalley, 2003; Tan, 1998), thereby creating ‘new employment paradigms’ [Gibb and Waight, (2005), p.273].

But Florida’s ideas have also led to considerable debate and critique from different perspectives: conservatives have mainly focused on cultural issues, such as how Florida’s work questions traditional family values and promotes ‘leftist agendas’ (e.g., Malanga, 2004), while progressive commentators have stressed the elitist implications of this new ‘class’ discourse, accusing it of insidiously promoting a neo-liberal agenda (Gibson and Klocker, 2005; Kipfer and Goonewardena, 2007; Peck, 2005). In this paper, we elaborate on the latter critique from a critical management studies (CMS) perspective, seeking to address the concern that ‘critical management studies [may have] missed the rise of this new spirit of capitalism in which creative destruction, chic slacker-cool and designer
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resistance are now celebrated in organisations advocating freedom around normative inputs’ [Fleming and Spicer, (2008), p.303]. Drawing on the concept of governmentality (Foucault, 1991; Dean, 1999; Rose, 1996, 1999), we describe how ‘creative class’ members are meant to be governed by the new creative ethos.

The paper is structured as follows. After this introduction, we discuss governmentality as introduced by Foucault and elaborated on by writers such as Dean and Rose. We then discuss Florida’s articulation of the creative ethos in general terms. Our fourth, fifth, sixth and seventh sections correspond to our analysis of Florida’s notion of ‘creative class’ as developing a particular governmental rationality. Following the framework introduced by Dean (1999, p.17) [for an application in management studies, see Skålén et al. (2006)], we study in turn:

1. what is being governed
2. how government is achieved
3. who we become when governed
4. why we are governed that way.

We close the paper with a reflexive discussion and some conclusions.

2 Governmentality

One of the most useful analytical tools for understanding the methods of acting upon others to produce subject effects is the concept of governmentality (Thrift, 2000). As an analytical guideline, it gives priority to questions of how we govern and how we are being governed. Governmentality expands the analysis from a focus on describing how authority operates in particular situations and spaces to include the practices of government, which ‘form the basis on which problematisations are made and what happens when we govern and are governed’ [Dean, (1999), p.28]. In this section, we give a basic introduction to the concept of governmentality and how it can be used and deployed as an analytical framework following Dean (1999).

Foucault initially introduced the concept of governmentality in a 1978 lecture at Collège de France in a lecture series entitled Sécurité, Territoire, Population (see Foucault, 2007[1978]). By deploying the concept of governmentality, Foucault provides a guideline for analysing technologies of power, and more importantly their political rationality (Lemke, 2001). The semantic linking of ‘government’ with ‘mentality’ implies a fusion of new technologies of government with a new political rationality (Clegg et al., 2006). In his essays on governmentality, Foucault (1991) looks at what he calls the ‘conduct of conduct’, i.e., ‘all endeavours to shape, guide, direct the conduct of others’ [Rose, (1999), p.3]. A focus on governmentality implies investigating the formation and transformation of theories, proposals and strategies for the direction of conduct of others, rather than framing investigations in terms of state or politics (Rose, 1999). In other words, by using a governmentality perspective we look at rationalised schemes and techniques that aim to shape the conduct of others in order to achieve certain objectives (Rose, 1999). Government enables problems to be addressed and suggests particular strategies to deal with these problems. These attempts of governing
might be formal, as in policy documents or economic theories, or less formal as in practical rationalities. But most importantly, an analysis using governmentality is not a ‘mere’ description of the empirical routines of government; rather it is also an attempt to understand how these routines and regimes have to be thought [Dean, (1999), p.29].

Foucault uses the term to link power relations to the process of subjectification (Lemke, 2001). Governmentality aims to create common sense-making frames wherein people voluntarily delegate moral autonomy and responsibility to a moral force external to the self (Clegg et al., 2006). But as Rose (1999, p.4) observes: “To govern humans is not to crush their capacity to act but to acknowledge it and to utilise it for one’s own objectives”. By governing through the population, governmental powers operate by facilitative rather than prohibitory mechanisms (Clegg et al., 2006): ruling thus is seen as a reflexive activity. People govern themselves and others towards what they see as the ‘truth’ and what they see as ethical. In contemporary society the true behavioural norms and conventions are mainly developed within human and behavioural sciences, which prescribe how people in the domains addressed by these sciences should constitute themselves (see, e.g., Townley, 1994). This emphasises the strong coupling between:

1. power and knowledge
2. practices of government
3. practices of the self; a coupling that enables the formation of a discursive totality.

A central aim in the analysis of government hence lies in interrogating the governmental rationality that is embedded in discourse and that produces subjectivity (Dean, 1999; Rose, 1999).

The concept of governmentality has been developed into a more coherent perspective through its rapid adoption in order to analyse a wide range of societal phenomena (cf., e.g., Allen, 1991; Barry et al., 1996; Dean, 1999, 2007; Hannah, 2000; Huxley, 2007; Miller and Rose, 1990; Perry, 2003; Rose, 1990, 1996, 1999), many of which can be seen as closely connected to how ‘advanced liberal government’ relies on ‘freedom’ to govern populations (Dean, 1999; Rose, 1996, 1999) and how this manifests itself in times of neo-liberalism: the subject tends to govern her/himself by aspiring to norms that are both ‘socially worthy’ and ‘personally desirable’ [Rose, (1999), p.76].

Within management and organisation studies, analyses largely inspired by a governmentality perspective have examined: issues of power and organisational subjectivity (e.g., Dixon, 2007; Jackson and Carter, 1998; van Krieken, 1996); HRM-related questions such as employee development, effectiveness and performance (e.g., Brewis, 1996; Kelly et al., 2007; Townley, 1994; Townley et al., 2003; Triantafillou, 2003); the ‘neo-liberalisation’ of society as seen through evolutions within public sector management broadly speaking (e.g., Clarke and Newman, 1997; du Gay, 2000; Stokes and Clegg, 2002) and health and higher education more specifically (e.g., Dent, 2003; Doolin, 2002; Ibarra-Colado, 2001; Larner and Le Heron, 2005); marketing and customer orientation (du Gay and Salaman, 1992; Hodgson, 2002; Skålén et al., 2006); as well as inter-organisational project management (Clegg et al., 2002). In this paper, we read some of Florida’s (2002, 2005) main works through the analytical lens introduced by Dean (1999, p.17), addressing the ethical (self-)government of the self through four aspects:
1 Ontology: What is being governed through the creative ethos?

2 Ascetics: How is government achieved? In particular, how is the normative claim made legitimate – e.g., through what technologies and scientific procedures?

3 Deontology: Who do we become when governed through the creative ethos? What subject positions are made available and valuable to us?

4 Teleology: Why are we governed that way? This entails a deconstruction because it covers two dimensions: on the one hand, for an individual, why is it fundamentally good to be part of the creative class; and, on the other hand, from the perspective of government, what may be the instrumental value of a dominant creative ethos in society?

3 The emergence of the creative ethos

“The nurturing of a creative class is seen as the foundation of prosperity and civilisation.” [Gibb and Waight, (2005), p.273]

The growth of creative economy discourse has led to envisioning new modes of self-regulation of knowledge workers, which enables the formation of a new creative and flexible subject position. Here, we look at some of the methods through which these new subject effects may be produced and how identities may be fixed.

The establishment of the creative ethos as part of a governmental rationality needs to be understood in terms of the knowledge economy discourse, and specifically how the latter portrays scalar governance and territorialisation, seeing Western regions as besieged by ‘behemoths like India and China’ who offer ‘huge markets, capable workforces and cost advantages’ to Western multinational corporations, thanks to their ‘low-cost, low-skilled end of the labour market’ (Florida, 2006b). Under these circumstances, multinational companies are naturally gravitating towards those environments that create and maintain the ‘sources of competitive advantage’ (Porter, 1990). As the movers and shakers of the economy, the mobility of multinational capital is a cause of explosive tensions through interstate and intercapitalist competition:

“[T]he scales on which this territorialisation process occurs are no longer spatially co-extensive with the nationally organised matrices of state territoriality that have long defined capitalism’s geopolitical and geoeconomic geographies.” [Brenner, (1999), p.435]

Headquarters, R&D and production are spreading across national borders, but they also agglomerate in particular regions, thereby shifting the issue of inequalities in wealth distribution from the national scale to the regional scale. As a result, regional politics has changed towards focusing less on welfare and more on issues of local economic development and competitiveness, based on productivity (Bristow, 2005; Schoenberger, 1998).

In this new form of regionalism, the identity of knowledge workers is increasingly discursively articulated through the competition of intrastate regions, most visibly the competition between ‘Western’ developed regions and the ‘behemoth’ regions of the fast-developing parts of the non-West – the ‘most ferocious onslaught of global competition in more than a century’ [Florida, (2007), p.19]. It is within such discourse
that creativity has become a central element, as ‘creativity and competitiveness go hand in hand’ [Florida, (2007), p.9]. Globalisation, through conditions of rapid change, technological obsolescence and interregional competition, necessitates citizen subjects who are enterprising, entrepreneurial, flexible, innovative (Bunnell and Coe, 2005) and now also creative (Thrift, 2000).

In the following sections, we will more closely examine how this creative ethos may be transforming how we are governed and how we conduct ourselves.

4 An elite for everyone – what is being governed

The constant need to remain one step ahead of emerging developing regions produces and reproduces a discourse of innovation based on the commodification of knowledge. This, in turn, has led to an appropriation and increased emphasis on the process of creativity (Thrift, 2000), which produces a new subject position in the division of labour, what Florida (2002) has referred to as ‘the creative class’.

But this allegedly does not refer to class in the traditional Marxian sense wherein ‘we are still talking about a basic structure of capitalists who own and control the means of production and workers under their employ’ [Florida, (2002), p.68]. As Florida (2002, p.68) further argues:

“[L]ittle analytical utility remains in these broad categories of bourgeois and proletarian, capitalist and worker. Most members of the creative class do not own or control any significant property in the physical sense. Their property… is an intangible because it is literally in their heads.”

This creative class is allegedly made up of people who control and own the means of production, i.e., creativity, thus rendering old class understandings all but obsolete, because even though Florida acknowledges that “Marx had it partially right when he foresaw that workers would someday control the means of production”, it is only to stress his point that ‘more workers than ever control the means of production because it is inside their heads: they are the means of production’ [Florida, (2002), p.37]. This also suggests a shift in power structures:

“The ultimate ‘control’ issue is not who owns the patents that may result, nor is it whether the creative worker or employer holds the balance of power in labour market negotiations. While those battles swing back and forth, the ultimate control issue – the one that we have to stay focused on, individually and collectively – is how to keep stoking and tapping into the creative furnace inside each human being.” [Florida, (2002), p.37]

It becomes the duty of workers to innovate faster and faster, adhering to short-term financial audits, while tapping into the creative self (Thrift, 2000). Issues of societal power and control are of secondary importance in this new project of self-management.

Florida (2002, 2005) is explicit in his writings that the new subject, the creative ‘worker’, is to be differentiated from managers – and generally departs from ‘organisation man’. Thrift (2005, p.47) makes a distinction between the subjecthood of the manager and that of the worker in the new economy, which entails ‘super-exploitation of both managers (who are expected to commit their whole being to the organisation) and workers (who are now expected to commit their embodied knowledge to the organisation’s epistemological resources as well)’. The latter are to be understood, in
Florida’s terms, as members of the creative class. Unlike organisation man, the creative class is portrayed as striving to be themselves, finding meaningful work, searching for (non-suburban) communities that let them validate their identities, identities portrayed as increasingly independent from corporate identities. What is left unproblematised is the paradox of workers increasingly committing their embodied creativity to the organisation.

Florida divides the creative class into the ‘super creative core’ and ‘creative professionals’. The former includes ‘scientists, engineers, university professors, poets and novelists, artists, entertainers, actors, designers and architects, as well as the thought leadership of modern society: non-fiction writers, editors, cultural figures, think-tank researchers, analysts and other opinion makers’ [Florida, (2002), p.69]. These envisioned subjects are largely Western individuals who are governed and governing through what they see as the ‘true’ behavioural norms and conventions of the creative economy. The ‘creative professionals’ are considered slightly less creative: they ‘work in a wide range of knowledge intensive industries such as high-tech sectors, financial services, the legal and healthcare professions and business management’ [Florida, (2002), p.69]. For these workers creativity is not part ‘of their basic job description’ but they are ‘required to think on their own’ [Florida, (2002), p.69]. In Florida’s articulation they share the ethos of the core, but because of their economic function they are not fully tapping into their creative furnace.

The identity of the creative class is most significantly defined by what it is not. In Florida’s view, those who are excluded from the creative class belong to either the ‘service class’ or the ‘working class’. If, as Townley (1994, p.31) argues, “a taxonomy… has the function of characterising and constituting classes”, then Florida’s is the mother of all taxonomies, arbitrarily classifying – i.e., including and excluding – people according to what segments of the workforce they belong to at a given point in time. According to Florida (2002), the creative class makes up around one-third of the US workforce. It is supported – both figuratively and literally – by the service class (allegedly 43% of the US workforce) and the working class (25%). While the former is discussed at length and visibly part of the audience targeted by Florida’s texts – and by the emerging creative governmentality – the latter seems to be more excluded as having values that are fundamentally incompatible with those of the creative class, although Florida often claims that the door is open to everyone.

The service class allegedly unites people with ‘low-end, typically low wage and low-autonomy occupations’ [Florida, (2002), p.71] in the service sector. These people have the potential to be creative but they cannot be part of the creative class because their economic function does not allow them to commodify their creativity to the extent of the creative class. Their creativity is not valued in the financial sense, but it might be if they start embracing the creative ethos:

“What about the other two thirds who are toiling in manufacturing or service?... We... [have]... got to... show [that] we can build a creative economy that includes everyone... a society where everyone... is valued [emphasis added] for their creativity. That’s the model we need.” (Florida, 2006a)

Thus, the people in the service class can move into the creative class. Exactly how this would be achieved is sparsely elaborated but we get some hints. For example, the rationalisation of the workforce might be one such wormhole to the creative class. Florida
(2002) gives the example of the secretary working in the downsized office that takes on ‘a host of tasks once performed by a large secretarial staff’ [Florida, (2002), p.70] and thus becomes ‘a true office manager’ who channels information and takes key decisions. In Florida’s view, this clearly adds creative value and it will surely eventually be financially compensated, not because of the balance of power in labour market negotiations, but because ‘organisations value [creativity] for the results that it can produce and individuals value it as a route to self-expression and job satisfaction’ [Florida, (2002), p.71]. So, there is still hope for some of the members of the service class, they just have to keep putting in those extra hours, take the extra step beyond their job descriptions, tap into the creative furnace and take on some more creative tasks formerly distributed onto a larger workforce and then they will ‘truly’ be part of the creative class. The rewards for flexible work hours will be guaranteed once they move up to the creative class where one is ‘well-compensated’. Flexibility is a defining value of the creative ethos.

Still, their creativity aside, there are service workers who ‘are not on track to join’ the creative class. Their economic function is defined by ‘deskilling’ and ‘decreativity’, they are an ‘economic necessity’ [Florida, (2002), p.71] as they are the supporting framework for the creative class and their growing leisure and work needs. There is little elaboration in terms of how to curb the ‘deskilling’ and the growth of this class, as one could instead assume that they need to grow vis-à-vis the growth of the creative class (Peck, 2005). Even though the service class is the single largest class, it is portrayed as a rather non-creative and non-describable bunch who never established either cool values (unlike the creative class) or traditional values (unlike the working class). As alluded to above, this lack of clear identity for the service class is also what makes the (lack of) values of its members compatible with a possible upgrading into the creative class.

Even though ‘the creative class do not yet see themselves as a unique social grouping’, its members are claimed to ‘actually share many similar tastes, desires and preferences’ [Florida, (2002), p.68]. Their creative ethos ‘marks a strong departure from the conformist ethos of the past’ [Florida, (20020, p.31]. A radical – yet benign – element of creativity is heavily emphasised, not least in the form of new values. These defining values are:

1. individuality
2. meritocracy
3. diversity and openness.

Let us look closely at each of these values in turn.

Individuality is framed in a highly oxymoronic way, defined as an unwillingness to ‘conform to organisational or institutional directives and resist traditional group oriented norms… [which] represents a new mainstream value’ [Florida, (2002), pp.77–78]: the claimed subversive potential seemingly is immediately co-opted and rendered harmless. The creative ethos presents individuality as a basis for class cohesion. Since the individual worker is now in control of the creative means of production, why would he need organised labour and trade unions? The emphasis on individuality also lays the foundation for government though freedom (Rose, 1999). In the subjectification process of the new creative worker, self-management, self-learning, self-help and self-empowerment are central notions. Workers are claimed to prefer to ‘move around’
and proactively accept that ‘their only real job-security comes from their capabilities and continued productivity’ [Florida, (2002), p.110]. Creativity being an individual input, it is the task of each individual to ‘take care of [their] creativity – investing in it, supporting it, and nurturing it’ [Florida, (2002), p.114]. Creative class members thus allegedly accept that a significant amount of their working time is invested ‘in taking care of their creativity’ through education, learning and picking up new skills, ‘all of it unpaid’ [Florida, (2002), p.114] during leisure time. The corporation should not heed the bill, as ‘it no longer pays for companies to invest significantly in developing their people’s skills and capabilities, when people leave for better opportunities’ [Florida, (2002), p.114]. People allegedly conduct themselves as they ‘now expect [emphasis of the original text] to manage their working lives… [coming] to terms with the new labour market’, which means that they accept the possibility of lay-offs and understand that they are ‘truly on [their] own’ [Florida, (2002), p.115]. This is a prime example of responsibilisation (Rose, 1999), wherein indirect techniques are developed for leading individuals without being responsible for them. Through their adhering to the creative ethos the subjects supposedly become ‘responsible’ through the naturalised understanding that social risks, in the form of poverty, illness, illiteracy and unemployment, are not anymore the responsibility of state protection systems but rather the responsibility of the individual: this represents the issue as a matter of self-care (Rose, 1999; Lemke, 2001). On the other hand, it goes without saying that sense of individuality notwithstanding, the creative class are expected to commit their embodied knowledge to their organisation’s epistemological resources without hesitation (Thrift, 2005). Creativity is enhanced and produced for the organisation but it is the individual worker who is responsible for the production costs.

Individuality is closely connected to meritocracy:

“The creative class favours hard work, challenge and stimulation… The companies that employ them are often under tremendous competitive pressure and cannot afford much deadwood on staff: Everyone has to contribute. The pressure is more intense than ever to hire the best people regardless of race, creed, sexual preference or other factors… [M]eritocracy ties into… values and beliefs we’d all agree are positive – from faith that virtue will be rewarded, to valuing self-determination and mistrusting rigid caste systems.” [Florida, (2002), p.78]

Typical for the discourse of the creative economy is the idea that in order to create an environment that attracts the creative class there is a need to focus on the most ‘intelligent’ subjects irrespective of their nationality or ethnicity (Bunnell and Coe, 2005). Thus, meritocracy is portrayed as intertwined with the values of diversity and openness.

Finally, diversity is considered a key feature of creative class values. It has been singled out as the most important trait that the creative class looks for in the location of the potential employer: values of openness and tolerance should thus govern the conduct of firms and local politicians. Signs of openness to diversity include a ‘people of different groups and races, different ages, different sexual orientations and alternative appearances such as significant piercing or tattoos’ [Florida, (2002), p.226] and a ‘tolerance for strangers and intolerance for mediocrity’ [Florida, (2002), p.227]. With the explosive growth of the creative class come radical behavioural shifts, as in the following example:
“In some creative centres like Silicon Valley and Austin, the traditional office Christmas party is giving way to more secular, inclusive celebrations. The big event is now the Halloween party: Just about anyone can relate to a holiday that involves dressing up in costume.” [Florida, (2002), p.79]

Elsewhere, the values of the creative class are helping to break down the social backwardness and traditionalism of ‘the other’ in relation to the progressive (and creative) ways of the West, as ‘new software forms in Bangalore are helping to break down the old caste-like system of social relations and establish more democratic and egalitarian business and social cultures’ [Florida, (2007), p.109]. ‘Openness’ is seamlessly linked to neo-liberalism.

5 A third T for good measure – how government is achieved

As was discussed above, the subject positions are engineered around the defining values of individuality, meritocracy and openness. From these central values, it is clear that there are important ways in which the creative class is chiefly characterised by its freedom: freedom of acting as an individual, freedom to aim for the top, and freedom of mind. Members of the creative class are thus meant to be ‘governed through [their] freedom’ [Rose, (1999), p.62], in line with the neo-liberal mode of government(ality). Once these values are adopted and conformed to by the creative class, specific locales and the firms within them are portrayed as having a better position to compete with other regions. Through a ‘scientific’ approach based on interpretations of statistical data a link has been established between creativity and regional economic outcomes. In Florida’s view, economic development should be measured, but not only by traditional financial measures; to add a basis of scientific legitimacy making quantitative operationalisations possible – or, as Townley (1994) drawing on Foucault (1970) may put it, to add ‘mathesis’ (a measurement-based ordering) to ‘taxinomia’ (a classification based on descriptive language, such as his articulation of the three classes) – he introduces what he calls ‘the 3Ts of economic development’, and he posits that “[t]o attract creative people, generate innovation and stimulate economic growth, a place must have all three” [Florida, (2002), p.249]. These three Ts around which statistical correlations are calculated are technology, talent and tolerance.

In Florida’s articulation, technology and talent are clearly interrelated. In order to understand the relationship between the two, Florida and his team developed and used four regional measures: the relative concentration of the creative class in a region, plus its talent index (a simple human-capital measure of the percentage of the population with a bachelor’s degree or above), its innovation index (patents granted per capita) and its high-tech index – a number based on the Milken Institute’s tech pole index, which measures the size and concentration of a region’s economy in growth sectors such as software, electronics, biomedical products and engineering services [Florida, (2002), pp.251–252]. The findings of this research have been interpreted by Florida (2002, p.252) as though they show that “both innovation and high-tech industry are strongly associated with locations of the creative class and of talent in general”. Beyond the very narrow definition of ‘talent’ as the proportion of the population with a certain educational level, these findings, related to the first two Ts, are not particularly counter-intuitive. If Florida’s contribution was limited to this correlation it could not really be framed as ‘extraordinary’, ‘revelatory’ or a ‘revolutionary idea’ (as written in the unanimous praise
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for the book, first six pages). But the discussion of the third T, tolerance, provides more controversial views and is certainly more ‘revelatory’ of Florida’s project and its governmentality.

Florida’s scientific measurement of Tolerance is largely based on census data. It relies on the ‘composite diversity index’, which is made up of three separate indexes:


2. the ‘Bohemian index’ (‘measures the number of writers, designers, musicians, actors and directors, painters and sculptors, photographers and dancers’) [Florida, (2002), p.260]

3. the ‘Gay index’.

The latter is particularly interesting in that it has raised most controversy. Considered ‘a good measure for diversity’ [Florida, (2002), p.255], this index has been derived from an analysis of census data. Until the year 2000, however, the US census did not ask for people’s sexual orientation. The researchers who developed the Gay index searched for ‘couples that were not married [who] identify themselves as ‘unmarried partners’, different from ‘roommates’ and ‘unrelated adults’’ and ‘[they] identified gay and lesbian couples’ by checking ‘which unmarried partners were of the same sex’ [Florida, (2002), p.255]. This type of interpretation ‘closets’ gays and lesbians who do live in family households and those who are partnered but do not live in the same household. Through these kinds of scientific and bureaucratic rationalities, we see only certain types of gay people through census data (see Brown, 2000). It is thus Florida’s text that constructs the ‘gay spaces’ of cities such as San Francisco, Boston, Seattle and Los Angeles, whereas cities such as Louisville, Jacksonville, Memphis and Detroit are rendered inherently ‘un-gay’. As Brown (2000) points out, it is not possible to ‘break down the closet’ without inevitably reconstructing it somewhere else.

As Rose (1999) and Brown (2000) remind us, governmental power is not simply the power to pass laws, it also lies in the ordinary, mundane bureaucratic practices, such as the census. The government’s knowledge of its population powerfully frames terms through which its citizens can see themselves. As Rose (1999, p.218) puts it, the census in the USA was designed from the beginning in order to “[govern] diversity in the name of the common good”. The rise of statistical epistemologies clearly has been crucial to governmentality (Brown, 2000; Hacking, 1991; Rose, 1999). More elaborate ways to use and analyse statistics enable more powerful forms of governmentality: “Numbers do not merely inscribe a pre-existing reality. They constitute it” [Rose, (1999), p.212]. Consider Florida’s discussion of the ‘Bohemian index’: he sees it as “an improvement over traditional measures of a region’s cultural amenities, using reliable census data” [Florida, (2002), p.260]. The reliability of the census is guaranteed by ‘clinical’ methods and the regularity of the intervals at which it is conducted, while its validity is achieved through its comprehensive coverage. In the USA, the citizen can be fined or imprisoned for ignoring the census. However, more importantly, from the perspective of self-governance, the census relies on self-reported information; and “Because the data are more or less publicly available, census data isn’t simply the state’s knowledge: it is everyone’s. People see themselves through the census” [Brown, (2000), p.95]. Even though the Gay index and the Bohemian index are supposed to apply to places, they
provide possible subject positions to the people who dwell in these places and identify with them.

6 Apolitical, consumerist bohemians – who we become

“The reign of such a one-dimensional reality does not mean that materialism rules, and that the spiritual, metaphysical and bohemian occupations are petering out... such modes of protest and transcendence are no longer contradictory to the status quo and no longer negative. They are rather the ceremonial part of practical behaviourism, its harmless negation and are quickly digested by the status quo as part of its healthy diet.” [Marcuse, (1964), p.16]

If the ‘Bohemian index’ is of value to Florida’s work, it is because the creative subjects as articulated by Florida allegedly see themselves as some sorts of postmodern bohemians. Their identities are qualified by Florida in oxymoronic ways, since they are apolitical and consumerist workaholics, all characteristics that at first sight do not fit so clearly with a bohemian view of life. But as Marcuse (1964, p.16; see above) showed more than 40 years ago, in our late modern times a boom in self-defined bohemian identities, far from being indicative of a subversive dimension, is ‘no longer contradictory to the status quo and no longer negative’, or then only in a ‘harmless’ way. Florida’s oxymorons can be seen as serving the purpose of annihilating any subversive potential within the new, emerging lifestyles in today’s society. Marcuse (1964, p.93) also demonstrated how ‘the unification of opposites which characterises the commercial and political style is one of the many ways in which discourse and communication make themselves immune against the expression of protest and refusal’. Today it literally becomes impossible for protest to ‘find the right word’ [Marcuse, (1964), p.93] since all the subversive signifiers have already been appropriated by the mainstream(ing) discourses, including Florida’s articulation of creativity. As Boltanski and Chiapello (2005[1999]) argue, the ‘new spirit of capitalism’ has managed to render critique inefficient by:

1 appropriating the formerly highly subversive ‘artistic critique’ (rooted in Bohemianism) that culminated in the late 1960s against the alienation of everyday life and integrating it into its productivist ethos while at the same time

2 discrediting the Marxist ‘social critique’ that has always rejected individualism and all forms of cultural elitism.

This has led to the emergence of a ‘neo-bohemia’ whose members can ‘[resist] the stratification and injustice of corporate capitalism while working 12-hour days making recruitment ads for Nike’ [Lloyd, (2006), p.240].

The subject that is being engineered in Florida’s works is the creative worker, ‘independent’ from her/his employer (and the welfare policies of the state) but fully expected to commit all her/his embodied knowledge and creativity as an epistemological resource for the company. As noted by Thrift (2005, p.47), “the net effect may well be to reduce the different conceptions and comportments of the person which are to hand and, worse, to transfer these reduced conceptions and comportments to other spheres of life”. The ‘reduced’ creative worker who emerges from Florida’s work is:
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1 apolitical
2 consumerist
3 a workaholic whose leisure life is profoundly limited by the demands of her/his challenging and stimulating job(s).

Let us discuss these aspects in turn in the next three paragraphs.

In many ways, the creative class is portrayed as apolitical. Referring (with his own labels) to Robert Cushing’s classification of US communities into four distinct types, Florida (2005, pp.45–46) proudly posits that the less creative communities, ‘classic social capital communities’ and ‘organisational age communities’, ‘score high’ or ‘higher than average in political involvement’, while the more creative ones, ‘Nerdistans’ and ‘creative centres’ have ‘low’ or ‘lower than average political involvement’. He implicitly points to a negative correlation between creativity and political involvement. If you are one of the ‘cool’ bohemians of the creative class, you are not concerned with seemingly outdated political matters. This way of presenting politics as irrelevant is visible in all of Florida’s recent works. Reviewing some of the critiques that were targeted at his 2002 seminal work, Florida (2005, p.2) discarded them as ‘overly ideological’ – similarly to his way of discarding the working class as having outdated values – which is revealing. Florida’s articulation of the creative class can be seen as an enterprise of de-ideologising ‘class’ and thus social inequality, by making class distinctions a straightforward matter of economic value to society. Since meritocracy is the name of the game, there is nothing unfair about the elevation of the creative elite: it is all about tapping in everyone’s creative potential. However, one important issue that Florida hardly mentions is the flip side of the celebrated ‘quality economic growth’ in “regions [that] are losing low-income but gaining high-income workers” (2005, p.23; emphasis in the original): what becomes of the low-income workers? This clearly points to gentrification, which Florida alludes to without elaborating much. This lack of elaboration is highly surprising since the ‘out-migration of bohemians (especially low-wage end bohemians...)’ [Florida, (2005), p.25; emphasis in the original] that he briefly mentions should presumably be considered a very serious issue to such a self-proclaimed proponent of Bohemianism. What the commodification of creativity signals is a phenomenon of gentrification where the independent artists who cannot afford to remain in the ‘well-compensated’ creative class literally disappear from the picture.

Within the neo-liberal governmental rationality that supports the rise of creative subjects, they are envisioned as ‘active’, ‘entrepreneur[s] of [themselves]’ [Rose, (1999), p.164]. The creative class are good citizens, which means that they are consumers: their ‘activity is to be understood in terms of the activation of the rights of the consumer in the marketplace’ [Rose, (1999), p.165]. What and how they consume is strongly connected to their entrepreneurial project of identity: even if Florida denies that the creative class corresponds to Brooks’ (2001) caricature of ‘Bobos’ (bourgeois-Bohemians) and that it is ‘primarily a lifestyle-and-consumer thing’ [Florida, (2002), p.199], it remains the case that where creative class members buy food, where they furnish their homes, what clothing they wear, etc., are all crucial elements of their self-entrepreneurial projects. However, Florida also argues that in addition to this more ‘traditional’ form of consumption, the creative class is characterised by its members’ interests in consuming ‘experiences’, in order to ‘reinforce their identities as creative people’ [Florida, (2002),...
These experiences are allegedly replacing goods and services because ‘they stimulate our creative faculties and enhance our creative capacities’ [Florida, (2002), p.168]. Members of the creative class are portrayed as favouring active, participatory recreation and consuming ‘indigenous street level culture’, where it is ‘hard to draw the line between participant and observer’ [Florida, (2002), p.166]. The creative class should indulge in what is called ‘imaginative hedonism’. As with everything that characterises the creative class, it should be noted that the access to creative urban hot-spots is defined by privilege and exclusivity, and is equally discriminated by purchasing power as it is by creativity (Bunnell and Coe, 2005).

Central to the creative economy and the subjects it produces are the increasingly blurred boundaries between leisure and work. On the one hand, leisure invades the workplace, which provides more and more extra-professional facilities, sending the message: ‘no need to go wandering off; stay right here at work’ [Florida, (2002), p.123]. On the other hand, the creative self also has to be nurtured and kept up during leisure time away from the workplace, so that the organisation can at all times, and when needed, get access to the individual’s epistemological resources of knowledge and creativity. Being an ‘active’, ‘enterprising’ subject also means accepting a great deal of flexibility in one’s work (Rose, 1999). No matter how ‘well-compensated’ they are, members of the creative class are often flexible immaterial labour, working in increasingly precarious conditions.

7 Beautiful losers – why we are governed

The question of why we are governed entails a deconstruction because it covers two dimensions: on one hand, for an individual, why is it fundamentally good to be part of the creative class; and on the other hand, from the perspective of government, what may be the instrumental value of a dominant creative ethos in society?

In Florida’s articulation, the values of the creative class are posited as those that are desirable not only to creative workers but to everyone in society: it is offered as a norm for contemporary American/Western subjects, being at once ‘socially worthy… and personally desirable’ [Rose, (1999), p.76; emphasis in the original]. What makes this emerging norm socially worthy is clear in the following two citations from a speech he gave in 2006:

“…We… [have]… got to… show… [that] we can build a creative economy that includes everyone… a society where everyone… is valued for their creativity. That’s the model we need…. what is so interesting about this new time is that for the first time in human history this creative economy annihilates all the social boundaries, all the social barriers, all the social categories, we as people have imposed on ourselves.” (Florida, 2006a)

“I don’t have a diversity agenda… I don’t care about multiculturalism… it’s just economic common sense.” (Florida, 2006a)

Here, an ethical argument about how social boundaries can be annihilated thanks to the creative economy is combined with a pragmatic, bottom-line argument about what makes sense from the economic viewpoint. Once we get to believe in the validity of these arguments, we can be governed and conduct ourselves as appropriate creative subjects. But being part of the creative class is also personally desirable: we do not want to be
excluded from the wonderful, open and equal society that is promised in the former citation. We are of course aware that this utopian society will never come about, but we can still believe that the creative path favours the better good; if even that does not hold true, we can always get our relief from the fact that we are members of the one elite that matters in society. Let us face it: being talented, tolerant and cool is fundamentally good; we are the winners of the creative age, the ones who drive the economy through our creativity and our active participation in the consumption society, so anything that is for losers (e.g., unions, job security, limited working hours) is not for us.

We are sorry for getting carried away for a second. It seems that in subjecting ourselves to the creative ethos we have made fools of ourselves. True, being active, cool, creative, enterprising, fashion-conscious, hard-working, self-actualising, talented and tolerant all at once is most valued in today’s society and those who manage this tour de force are the conspicuous heroes of our time. But why are these characteristics valuable to (neo-liberal) government? Because they lead us to (among others):

1 alienate ourselves from (the need of) social protection systems
2 flexibilise our work conditions
3 take care of the development of the means of production (our creativity) ourselves and without compensation – all seemingly by our own will.

How convenient for government: these ‘free’ choices on our part make the management (or should we write the exploitation) of people’s creativity and efficiency so much smoother. This is a clear example of government through freedom (Rose, 1999), through people’s will to enact their lives in terms of activity, enterprise, choice and creativity.

8 Discussion and conclusions: reflecting on ourselves and others

The powers of freedom shape today’s Western societies, which makes it harder to resist being governed in a neo-liberal way. Are we not all seeing freedom as our most precious value, the one that makes it possible for us active citizens to choose our ways of self-actualisation? As researchers working on stimulating topics and trying to be productive subjects in the political economy of academic publishing, are we not actively participating in the creative society that Florida is celebrating? Our governmentality perspective provides a contribution that helps us understand how the reflexive management of the self by the self leads more and more of us to construct them/ourselves as creative subjects. By moving between ‘they’ and ‘we’, we have tried to show how contemporary forms of government(ality) make it possible for people to actively govern themselves towards norms that they see as both socially worthy and personally desirable, while they could easily be aware that these very norms are instrumental in the reproduction of a deeply unequal economic and social system, designed to exploit both the conspicuous winners and the discarded losers. Our analysis has been exclusively focused on Florida’s texts on the creative class, which we see as both foundational and exemplary of the creative age; empirical studies examining identity construction processes at work in ‘creative industries’ would be needed to understand better how individuals relate to the subject positions provided by contemporary creativity discourses.
Based on this study, we would concur with Florida (2002) on the fact that the ‘rise of the creative class’ is indeed ‘transforming work, leisure, community and everyday life’. Work and leisure are more flexible concepts, with more job insecurity, longer working hours and blurred work/leisure boundaries. Communities are increasingly apolitical, indulging in a benign, surface alternativism that is but a harmless negation of the mainstream, which becomes ‘a new mainstream value’ [Florida, (2002), pp.77–78]. Everyday life, presented as a conflictual by Florida (since there allegedly is now a chance for everyone to thrive as long as they are active, enterprising and creative) is on the contrary characterised by increasingly intense competitive pressures caused by the rise of creative governmentality. In the new class structure analysed by Florida, inequalities are rampant and keep growing; and the old story of the division between those who own capital and those who have to sell their – however creative, stimulating, challenging and fulfilling – labour still holds. Among the ‘creative workers’, those who are competitive and manage to enterprisingly sell themselves in these new conditions may have found a path to happiness, or better, the sacrosanct permanent self-actualisation. Others… well, once their existence is verified, their problems measured, and their capacities mapped, the caring creative class will start working on their case.

References


Notes

1 Richard Florida currently is a Professor at the Martin Prosperity Institute at the Rotman School of Management, University of Toronto. The release of his book *The Rise of the Creative Class* (2002) made him (and his consultancy firm, Creative Class Group) a highly sought-after consultant both in the US and internationally for cities and regions that sought to improve their competitiveness. He was recently named ‘European Ambassador for Creativity and Innovation’ as part of the European Commission’s strive to ‘raise awareness of the importance of creativity and innovation for personal, social and economic development’ (http://create2009.europa.eu/).
Three facets of management research: theoretical sophistication, explaining practice and reflective understanding

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Abstract: Three different areas of management study: modelling, quantitative and qualitative are discussed in conjunction with three Greek philosophical notions of human action, namely: theoria/episteme, poiesis/techne and praxis/phronesis; together with three Kantian forms of scientific knowledge: exact knowledge, experience and experimental knowledge and knowledge in humanities. Balancing the pendulum between abstract, mathematical modelling (theoria/episteme), empirically oriented explanatory applications (poiesis/techne) and reflective understanding of wisdom and judgement (praxis/phronesis) has been conducted over the years with an emphasis on modelling and empirical problem solving; whereas aspects of discerning managerial decision-making and decorum have been more remotely addressed. Pressing management concerns surrounding, e.g., accountability, environment and ethics do however embrace the understanding aspects of praxis and phronesis, rather than more elaborate mathematical sophistication from the field of theoria and episteme.

Keywords: episteme; experience; Kant; knowledge in humanities; management research; modelling; qualitative and quantitative method; reflective understanding; scientific knowledge; techne.


Biographical notes: Hans Rämö is an Associate Professor and Senior Lecturer at Stockholm University School of Business. His research areas of interest are temporal and spatial factors of management and markets in relation to, e.g., corporate social responsibility (CSR), communication, networks, projects, trust, philosophy and sociology of science.

1 Scientific rigor and daily management practice

In the occasionally heated debate on whether or not to bridge an alleged relevance gap between academic theory-based management education and real world problems that management practice faces, many prominent voices have presented their different opinions. There seems to be at least three positions in the current debate; those arguing for more relevance-based management education; an intermediate position trying to
reconcile theory and practice; and advocates of a classical ideal of ‘general education’, without immediate concern for the ‘usefulness’ and target-oriented management education. Among the proponents leaning toward a more practice-oriented relevance in management research and education are Bennis and O’Toole (2005) in their critique of business schools for being too focused on ‘scientific’ research and failing to impart useful real world managerial skills to their students. Pfeffer and Sutton (2006a, 2006b) argues for more evidence-based management teaching and decision-making instead of ideas based on conventional wisdom, history, ideology or assumptions. Mintzberg (2004) on his part asserts that conventional MBA programmes are particularly inclined to overemphasise the science of management, while leaving a distorted impression of its practice in their ‘less-than-relevant curriculum’.

Some scholars have also addressed the problem by trying to reconcile the so-called relevance gap between management theory and teaching and management practice. Starkey and Madan (2001), for instance, try to bridge the relevance gap by examining the narrow discipline base in management research at the interface between business and academia. Hauthchuel (2001) defines the scientific object of management as ‘models of collective action’ and argues for the importance of research-oriented partnerships in management studies. Vermeulen (2005, 2007), on the other hand, argues for a ‘second loop’ of relevance communication – one that engages practitioners directly, as a source of insight to inform research at its inception, in addition to the traditional first loop of rigorous communication when teaching and reading academically. The historical alteration in management theorising between rational and normative rhetorics has been an object of study by Barley and Kunda (1992).

Other scholars have taken an opposite tack, in arguing against the necessity of bridging the alleged relevance gap between academia and practice. March (in Coutu, 2006) (see also Huff, 2000), in particular, is one of the most passionate and articulate critics of the idea that management education and research should have immediate relevance for management practice and practitioners. Instead, March remains an ardent believer in higher education freedom without adjustment to commercial demand. In a similar vein, Weick (2001) argues as passionately against the aspiration for immediate relevance in management research and education [for overviews of the rich debate over the ‘relevance gap’ between management theory and education and practice, see for instance Rynes et al. (2001), Tranfield (2002) and Walsh et al. (2007)].

The much debated question here is whether research findings concerning real world problem-solving are (and should be) transferable to the non-research community and indeed are the findings of any practical significance to that community of management practitioners?

The aim of this paper is therefore to identify and discuss some epistemological issues involved in this debate about tensions and gaps between academic management research and management practice.

The alleged tension between academic management research and management practice – and a possible growing chasm between the two – seems to be caused by the nature of management research; always acting in between the demand for prescriptions and empirical relevance and scientific rigor. A basic question regarding this matter concerns the epistemology of management knowledge: is it possible to prove that management theories are, if not true or false, but at least pragmatically useful or not? Is it possible to state evidential grounds for preferring one management theory to another?
Instead of slavishly following well-known arguments in the ongoing debate about the nature of management research, and its alleged relevance gap, this paper will make an attempt to take some steps back and to discuss these issues from an epistemological standpoint. Such epistemological issues are brought into the light and dealt with in discussions of either quantitative or qualitative methods to management research as well as in accounts of the nature and growth of scientific knowledge in management.

This raises two questions. The first question is whether current management researchers can provide coherent accounts of their epistemology of science, and of the growth of knowledge. The second question is to what extent can such procedures for acquiring scientific knowledge in management research fit to the needs and demands of practitioners and provide norms for prescribing how otherwise misguided managers should behave.

The present paper is organised in the following way. First, we make a brief presentation of some Aristotelian forms of human action and offer some comments on their origin. Then the next section gives a presentation of three different types of scientific knowledge derived from a Kantian line of thought. The subsequent section then explores some contemporary directions in management research and their implications for management practice. Joining these three presentations – Aristotelian notions of human action, scientific knowledge and contemporary forms of management research – allows for a better understanding of the much debated relevance gap between management research and practice. The paper concludes with a reflection of the different forms of human action, scientific knowledge and management research directions and their possibilities and limitations in terms of academic rigor and empirical implications are discussed.

2 Aristotle’s three different forms of human action

The question of understanding human action has been a subject of interest from the earliest days of philosophy. To gain a fuller comprehension of the background of the present dichotomies and problems of management research a table of concepts and some comments on their origin are necessary. In the *Metaphysics* (E1, 1025b) Aristotle suggests that all thinking (*dianoia*) can be divided into three kinds (see also the *Nicomachean Ethics* 1140a, 1140b). The following table of Aristotelian terminology brings the background of some modern concepts of human action into order:

*Figure 1* Aristotelian notions of human action

<table>
<thead>
<tr>
<th>IN THEORY</th>
<th>IN PRACTICE</th>
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<tbody>
<tr>
<td><em>Theoria</em></td>
<td><em>Poiesis</em></td>
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<tr>
<td>↓</td>
<td>↓</td>
</tr>
<tr>
<td>Theoretical <em>activity</em> promotes <em>scientific skills</em></td>
<td><em>Making promotes skillfulness and proficiency</em></td>
</tr>
<tr>
<td>↓</td>
<td>↓</td>
</tr>
<tr>
<td><em>Episteme</em></td>
<td><em>Techne</em></td>
</tr>
</tbody>
</table>

*Source:* Translated from Ramírez (1995, p.8)
Initially, in an Aristotelian sense, any strict division between theory and practice, to use a ‘modern’ day terminology, is artificial because theory and practice are just two different forms of activity. Theoretical activity (theoria) has to do primarily with the activity of investigating the world and not with the result of scientific documentation, which is how the concept of theory is understood today. Still, the ‘results’ of this scientific activity (episteme) is an acquired arrangement by words that describes and codifies different states of things (or affairs). However, in an Aristotelian sense, this theoretical activity is only one theoretical form of performance and is similar to other performances such as those of carpenters and bricklayers. Theoretical activity (theoria) and its ‘results’ (episteme) may gradually filter down into a twofold domain of practice: to the making part of practice (poiesis), which promotes skilfulness and proficiency (techne); and to the acting part of practice (praxis), which in turn promotes wisdom and judgement (phronesis). The latter acting part is sometimes forgotten among contemporary scholars, whose centre of interest apparently is more on the improvement of skills and proficiency.1 Further, from an Aristotelian point of view, there is a much more pronounced difference between the two forms of practical activities, between the performative poiesis/techne and the somewhat forgotten praxis/phronesis, than between the theoretical activities of theoria/episteme and their performative counterpart poiesis/techne. However, the term activity, as used above, is not limited to denoting intentional physical movements only, it is also extended to the activity of thinking, which precedes any intentional physical movements. Also, note the somewhat awkward denomination of poiesis as making and praxis as acting. The difference between making and acting, however, is crucial for distinguishing making something from acting in a particular way.

3 Three different Kantian forms of scientific knowledge

To further comprehend and unfold some of the reasons for modern day debates about management research and learning in terms of ideals and practice calls for a separation of knowledge concepts. The following scheme which is derived from Kant’s table of judgement in the Critique of Pure Reason (A70/B95) differentiates between the three well-known ‘forms’ of scientific knowledge, namely: exact knowledge, experience and experimental knowledge and knowledge in humanities.

Although some scientists in the ‘exact knowledge’ tradition are mainly concerned with the elaboration of models and theories – as also in management research – these models and theories should in some form be experimentally testable.

In the hypothetico-deductive method, e.g., in the ‘experience and experimental knowledge’ category in Figure 2, a crucial factor is the perpetual concern with the elaboration of test of hypotheses that may conceivably be refuted by further experience [cf. nomopragnmatic statements in, e.g., Bunge (1998a, 1998b)]. The importance of this lies in the fact that a refusal to admit the possibility of falsification implies an abandonment of the scientific method, no matter how successful the particular method has been in producing confirmatory evidence per se.
Choosing the third approach, the ‘knowledge in humanities’ category in Figure 2, indicates a direction towards non-positivist approaches. Whereas non-positivist approaches in general accept positivism, as one scientific method among others, a strict positivistic approach, on the other hand, refutes non-positivism (e.g., hermeneutics), as being part of legitimate science. But it can be argued that a wider and more tolerant concept – which leaves a door open for other opinions – has an advantage in attempts to observe and understand problematic human phenomena’s such management, knowledge, learning, etc. Taking a given discourse and not allowing a conversation about the particular subject matter from different points of view abruptly closes all other opinions from discussion. This can happen either deliberately or unthinkingly; either reflecting a membership in a closed grouping of scientists or a taken-for-granted attitude about the nature of methodology. Both types can be found among management researchers.

**Figure 2** Different types of scientific knowledge

<table>
<thead>
<tr>
<th>EXACT KNOWLEDGE</th>
<th>EXPERIENCE AND EXPERIMENTAL KNOWLEDGE</th>
<th>KNOWLEDGE IN HUMANITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation:</td>
<td>Mathematics</td>
<td>Natural (science)</td>
</tr>
<tr>
<td>Status:</td>
<td>Independent from experience</td>
<td>Observable or provoked</td>
</tr>
<tr>
<td>Purpose:</td>
<td>Tautological statements</td>
<td>Universal statements</td>
</tr>
<tr>
<td>Logical starting point:</td>
<td>Axioms or postulates</td>
<td>Hypotheses</td>
</tr>
<tr>
<td>Conclusion:</td>
<td>Apodictic beyond time and space</td>
<td>Assertoric prediction</td>
</tr>
<tr>
<td>Inference:</td>
<td>Deduction, from general and explicit to particular and implicit</td>
<td>Induction, from particular and known to general and unknown</td>
</tr>
<tr>
<td>Veracity:</td>
<td>Analytical</td>
<td>Synthetic</td>
</tr>
<tr>
<td>Proof:</td>
<td>Compulsive</td>
<td>Permissive</td>
</tr>
</tbody>
</table>

*Source: Adapted from Ramirez (1995)*
However, such an overzealous demarcation of the boundaries of science has been less evident over the years. For example, in the physical sciences, adopting evolutionary patterns with initial conditions derived from mutation, natural selection, genetic drift or historical and geographical conditions can appear as a violation of the logic of science if this is seen narrowly as a system of fundamental regularities. Therefore, the figures used in this paper can best be seen as simply depicting different communities of interest. As in all human communities, these are neither homogeneous, nor clearly delimited, only characterisations of different spheres of interest.

4 Three contemporary management research orientations

Taking some of the presentations in the previous figures one step further allows us the possibility of building a dendrogram of current-day research orientations in management.

Figure 3  Dendrogram of research in management

Three general types of management research orientations can be identified and their underlying implications in terms of practical usefulness can now be outlined. There seems to be a pronounced tension between abstract modelling, quantitative explanations and qualitative attempts to understand management. The different fields of management research depict different forms of epistemological representations; mathematical modelling, quantitative explanations and qualitative attempts to understand management.

The first option includes purely abstract and generalisable management modelling techniques. In terms of management practice, this theoretical activity (theoria) and its ‘results’ (episteme) have no necessary concrete bearing upon everyday management practice beyond abstract conceptualisations (mathematical modelling and theory, e.g., abstract forms of game theory).

The second option is based on quantitative and qualitative ideas of desirable management practice; the textbook’s step-by-step advice as well as ideas promoted by consultants (e.g., time management, just-in-time, lean production and total quality management). This approach, using part of practice (poiesis) to promote skilfulness and
proficiency (techne) remains on the whole instrumental and prescriptive. This second option of quantitative/qualitative research also opens up towards case studies as well as in situ management consultancy.

The third option, including aspects of praxis and phronesis – antithetical to mathematical modelling techniques – is about the ability to be reflective about praxis, and to act and manage judiciously and wisely in concrete and specific occasions. The consequence of choosing this third option might be twofold; either to understand the different roles of academic and practice, acting accordingly and possibly to ‘jump’ between the role of being an academic researcher and communicating to managers (cf. Vermeulen, 2007). Or, more radically, arguing for a demarcation line between academic studies of management and management practice. The latter is perhaps expressed most drastically by March’s [in Coutu, (2006), p.85] statement:

“If a manager asks an academic consultant what to do and that consultant answers, then the consultant should be fired. No academic has the experience to know the context of a managerial problem well enough to give specific advice about a specific situation. What an academic consultant can do is say some things that, in combination with the manager’s knowledge of the context, may lead to a better solution. It is the combination of academic and experiential knowledge, not the substitution of one for the other, that yields improvement.”

5 Explaining or understanding differences

The previous sections have identified some epistemological causes for the tension between academic management research and management practice. It is assumed that a tripartite division exists between proponents of a first view which suggests that management research should be designed and conducted to evaluate – and perhaps also scientifically solve – empirical real world situations, a second group trying to bridge the gap between management theory, education and practice, and a third group who think that scientific research cannot be ruled and regulated by practical management assignments only.

Thus, the tension between proponents of theoretical and scientific sophistication in management education and practice oriented teaching and reflective learning, remains. Few other literary genres are as lucrative as ‘management books’ with their related consulting possibilities. But business book bestsellers seem to be ephemeral and constantly replaced by other new ideas of the day. Bestselling management books address matters and express ideas that are only momentarily found to be meaningful by their readers (see, e.g., Kieser, 1997). Few management books, however, address ideas and opinions that can be seen as belonging to phronesis (wisdom and judgement). Instead, most of the books are checklist oriented and thus belong more to the field of poiesis (skilfulness and proficiency).

Conducting successful management practice has perhaps more resemblance to jazz improvisations, rather than conducting and leading well-organised and disciplined symphony orchestras (cf. Carlson, 1951). In contrast to best practice and other vocational activities, which are frequently taught in management courses and popular subjects in textbooks, this third aspect of wisdom and judgement in management is unfortunately much more delicate and difficult to teach to (young) students with limited knowledge and experience of management practice.
In the Aristotelian terminology discussed in this paper, this means that a somewhat partisan focus on *poiesis* and *techne*: a skilful ability in making something devalues *praxis* and *phronesis*: to act wisely and judiciously. One reason for this devaluation is the fact that wise and judicious acting takes time to evolve, but ‘practice’ occasionally falls back on quick fix solutions in management contexts that embrace speed. We all experience confusion between the fast moving information obtainable from different sources and knowledge that really need to be fostered and reflected on individually.

6 Concluding reflections

Notwithstanding the ongoing debate over relevance in management studies, few other academic disciplines can claim such credit for influence upon practice as has management science. The management education programmes serve both as an academic education and as a step in a professional training. But in contrast to law and medical studies’ closeness to real-world professional practice and control, management is not as regulated and clearly defined a reference outside the world of scholarship. The flexible and inclusive characterisation of what constitutes competent management education and practice makes it more susceptible to (volatile) influences from popular and professional groups. Both management schools – particularly MBA programmes – and management practitioners are keenly aware of the latest trends and advancements in their respective fields. The field of management, is also more open for trial and error than, say law and medicine. The corrective and disciplinary actions then taken against overly naïve or shrewd business behaviour are not as threatening as in medical and legal malpractice; whereas the manager gets fired (perhaps with a monetary compensation) and finds a new job, the legal or medical practitioner risks disbarment and exclusion. Recent examples, however, show that the overall societal consequences of corporate mismanagement could be profound, and more so than in medical and legal malpractice, since the latter two in most cases affects smaller groups (although with possibly more dire consequences for the individual).

Contemporary management concerns surrounding auditing and accounting practices have been high on the agenda since the early days of the 21st century. And more recent debates about such issues as global warming and increased greenhouse gases have again contributed to a growing general interest in not only financial and environmental issues, but also of social and cultural responsibility. These pressing management concerns also embrace the understanding aspects of *praxis* and *phronesis*, and they cannot be reduced to matters of increased managerial skills and improved modelling only.

An inherent problem with management as an academic field of study is also its indistinct relation between being a scientific discipline and being a more practice-oriented subject in an academy that gives more honours to theory. It is accused of being out of touch with the reality of management practice – and in conflict with what those in industry find useful or criticised for being based on research that is too basic and is out of touch with the rigors and theoretical discipline of the academy. At times, this indistinctness is also mirrored in the constitution of the student body in business schools. Whereas many students in medical and law schools might have been passionate about their choice of profession since young age, fewer management students experience the same sense of beauty and excitement when learning about management theory and
practice. Getting an academic degree in management (particularly an MBA) is primarily for instrumental reasons – to boost career and earning power, rather than for the attractiveness of the subject itself. The tension in the discipline of management studies is thus manifest both in the academic subject field as well as in the student population attending the courses.

Management researchers have long recognised (at least) three principal ways to think about management and select and evaluate facts. The first modelling perspective thinks about management primarily in terms of mathematical and statistical analysis. The second perspective of quantitative and qualitative management research looks at it more in terms of expanding cooperation and complex interdependence, communication, negotiations and institutions. A third more dialectical and reflective perspective sees management largely in terms of what people believe – the ideas, norms and values they share that shape their rhetoric, discourse and identity. Many scholars are familiar with these three perspectives or at least simplified versions of management theories, but may still not fully understand or contemplate how they influence day-to-day debates – and how they also might create boundaries between scholarly studies and everyday management practice.

Everyday interactions in society are complex yet trivial and filled with unanticipated events. The importance of communication is therefore central to almost every aspect of management. Successful management practice and communicating with colleagues and clients cannot only be taught from a textbook or a manual; neither can consultants nor mathematical modelling help us with such situations. Instead, skilful management practice places great demand on communicative and rhetorical skills at the right time (kairos) and in the right place (topos) – where and when the situation requires an immediate action. Aspects including wisdom and judgement (praxis and phronesis) seldom come from classroom-based studies of best-practice and other vocational training activities only.

A somewhat regrettable conclusion is therefore that neither the mathematical modelling tradition nor the qualitative reflective tradition can offer very much help regarding how to deal with practical management issues. Attempts to reach analytical veracity in the ever sophisticated mathematical modelling (theoria/episteme) in management research will remain futile because its subject matter is human behaviour, which cannot be completely encapsulated in simplistic models based on measurable variables (cf. de Marchi, 1993; McCloskey, 1994; Mirowski, 1989). On the opposite side of mathematical modelling, some examples of far-reaching dialectical epistemology might also have only sham relevance in management research and practice. Modelling and dialectical forms of management research are examples of two radical end points of the methodological pendulum; between efforts to explain and attempts to understand, thus originating from either the ideals of Naturwissenschaften or Geisteswissenschaften. As such, both are distinct domains within the deeper spheres of academic research, rather than serving as communicating mediums between academia and management practice. The constructive communication between academic research and practical management issues will therefore most likely take place in the cross-over between empirically oriented quantitative and qualitative field of research [cf. the ‘second loop’ in Vermeulen (2005, 2007)]. Unfortunately, this middle course of management research remains the ugly stepchild in many parts of academia; popular and lucrative but not of the right breed or rigor to be exalted into the higher pedestals of academic sophistication in mathematics or philosophy.
The three broad categories of management study presented in this paper (modelling, quantitative and qualitative) have shown that the controversy rising from different epistemological standpoints leads to a divergence in research orientation which remains principally unbridgeable. All three categories are relevant to contemporary management studies, but whereas the modelling and quantitative categories have been the dominating approaches, qualitative and reflective approaches of praxis and phronesis have been less pronounced. A major obstacle, however, in internalising ideas of praxis and phronesis is the doubtfulness of whether wisdom and judgement at all can be subjects of academic study in business schools. To a certain extent it is worth aiming for in order to reflect on ethical issues of prudent management and responsibility. Nevertheless, insight into matters of decorum, judgement and wisdom in daily management practice must be caught not taught and not learned by rote.

References


**Notes**

1 A more recent example is Ryle’s (1949/1963) division between ‘knowing that’ and ‘knowing how’ which bear a resemblance to the Aristotelian division between *theoria/episteme* and *poiesis/techne*, without fully acknowledging the wisdom and judgement aspects of *praxis/phronesis*. 
Homogeneity or heterogeneity? On the nature of management ideas and their spread

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Abstract: This paper offers an alternative approach to the spread of management ideas. It is an approach that can explain, better than the fashion perspective, the differences between organisations adopting the same management idea and that can explain, better than the translation perspective, the similarities between the practices of organisations. Management ideas have a socially constructed nature and ideas existing in the same area consist of the same set of themes, albeit differently emphasised. Management ideas are both ambiguous and unambiguous, organisations are becoming both more similar and more dissimilar as a consequence of the spread of management ideas and the ideas are both new and old. Following fashion is thus quite an easy task; organisations do not have to make very big changes in order to become or remain legitimate. This argument is illustrated by the following management ideas: knowledge management, the learning company, the learning organisation and organisational learning.

Keywords: ambiguity; diffusion; fashion following; heterogeneity; homogeneity; knowledge diffusion; knowledge management; learning company; learning organisation; legitimising; management fashion; organisational learning; spread; translation of ideas.


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1 Introduction

The spread of management ideas, or management fashions as some call them (e.g., Abrahamson, 1996a, 1996b), has become an issue of interest to many scholars (e.g., Alvarez, 1998; Benders et al., 1998; Czarniawska and Sevón, 1996, 2005; Fink, 2003; Gill and Whittle, 1992; Kieser, 1997; Lervik and Lunnan, 2004; Love and Cebon,
A. Örtenblad

2008; Mazza and Alvarez, 2000; Moore and Brown, 2006; Ponzi and Koenig, 2002; Ryan and Hurley, 2004; Sahlin-Andersson and Engwall, 2002a; Scarbrough and Swan, 2001; Sturdy, 2004; Swan et al., 2001; Thomas, 2003). Since so many academics see management ideas in terms of fashion, or analyse the spread of management knowledge from a fashion perspective, it could be claimed that management fashion per se has become a fashion (ten Bos, 2000; Clark, 2004; Örtenblad, 1999).

One of the issues that is most debated is what effect on practice the spread of a particular management idea might have (e.g., Brunsson and Olsen, 1993; Czarniawska and Sevón, 1996; DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Erlingsdóttir and Lindberg, 2005; Røvik, 1998). In this debate, two main positions are taken.

Many researchers – probably the majority – still treat management ideas as if they were unambiguous. This is especially true among those who address the spread of management ideas from a fashion perspective (see, e.g., Abrahamson, 1996a), indicating that the spread of a particular management idea results in the organisations adopting it becoming more similar, i.e., isomorphism (DiMaggio and Powell, 1983; Erlingsdóttir and Lindberg, 2005).

An alternative perspective views the ideas as vague and/or ambiguous. They possess interpretative viability (Benders et al., 1998; Benders and van Veen, 2001). This means that an idea can easily be interpreted differently by different actors, in the sense that different meanings are assigned to the same term and that concepts actually have to make space for different interpretations in order to be broadly spread. Vague ideas can more easily be adapted to different contexts than clear ones, appropriately for the adopters (Scarbrough and Swan, 2001, p.8). It has gradually become more and more common among scholars to claim that popular management ideas are vague and/or ambiguous. Some refer to management ideas in general (e.g., Benders and Verlaar, 2003; Ryan and Hurley, 2004) while others refer to specific ideas. For instance, Kahn (1974) argued that ‘organisation development’ was a convenience term, i.e., a term denoting a conglomerate of things. Abrahamson (1996b) sees ‘total quality management’ as an umbrella term that has come to mean almost everything – and therefore nothing. Kieser (1997) argues that management fashions are ambiguous and indicates that they are becoming indefinitely differentiated, which he claims makes terms almost meaningless. The spread of a particular management idea can thus be assumed to result in many different applications, the idea being translated differently by different actors (Czarniawska and Sevón, 1996; Latour, 1986).

In this paper, a perspective on management ideas is suggested that implies that their diffusion could lead to both homogeneous and heterogeneous practice. Such a perspective can explain what is pointed out too rarely, i.e., that “organisations simultaneously reveal a striking homogeneity and heterogeneity” (Sahlin-Andersson, 1996, p.70). It is suggested that ideas dealing with the same, or a similar, issue are almost identical. The ideas all contain the same set of themes, but they are dissimilar in two respects. They differ in that they have different names (i.e., labels) and that they emphasise different themes. As Hirsch and Levin (1999, p.206) suggest, “[t]he elements of an umbrella construct that has collapsed will outlive the construct” and “[a]n umbrella construct that undergoes collapse will be reborn with a new and different name”.

A similar approach was suggested by Antonacopoulou (2000) who analysed the processes of learning, education, training and development from a holographic perspective, that is, that the whole is reflected in each of the parts. She claims that “each encapsulates elements of the others” (Antonacopoulou, 2000, p.260).
The literature on four management ideas related to knowledge and learning, in an organisational context, help to illustrate the suggested perspective. These ideas are organisational learning, the learning organisation, the learning company and knowledge management.

All four ideas have been described as vague and/or ambiguous. This goes for knowledge management (e.g., Baines, 1997; Denton, 2001; Despres and Chauvel, 1999; Gumbley, 1998; Roberts, 2000; Scarbrough and Swan, 2001; Stimpson, 1999; Wilson, 2002), the learning company (e.g., Davies, 1992; Leitch et al., 1996), the learning organisation (e.g., Filipczak, 1993; Grieves, 2000; Lipshitz et al., 1996; Smith, 1999; Stewart, 1994) and organisational learning (e.g., Despres and Chauvel, 1999; Lähteenmäki et al., 2001; Lipshitz et al., 1996).

In the next part of this paper, the suggested perspective on popular management ideas is illustrated with the help of these four ideas. Thereafter, the implications of the suggested perspective, in relation to three debates in the literature on the spread and popularity of management ideas, are addressed: whether ideas are ambiguous or unambiguous, whether the spread of ideas gives rise to homogeneous or heterogeneous practice within organisations, and whether emerging ideas are new, old or ‘old wine in new bottles’. Some implications for both research and practice, from the suggested perspective, are also outlined. Finally, under the heading of ‘concluding remarks’, the validity of this approach is discussed and some other areas of study are suggested to find out whether the approach also makes sense in relation to other ideas.

2 The constructionist nature of management knowledge

It is suggested in this paper that the four ideas explored all contain the same four themes. One could argue, of course, that the contents of the ideas should be categorised differently or that the ideas contain other themes over and above those suggested here.

There is, however, no single ‘correct’ definition; what a particular idea means is open to interpretation. According to Swan et al. (2001), ideas have a socially constructed nature, among groups with interests in the application of the ideas (see also, e.g., Clark and Salaman, 1998; Czarniawska and Sevón, 1996; Kieser, 1997; Newell et al., 2000; Scarbrough and Swan, 2001). As Astley (1985, p.509) argues, “administrative science is a socially constructed product”. Thus, exactly what an idea means can vary.

How all these interpretations should be categorised, however, is up to the categoriser:

“It is tempting to think of categories as existing in the world and of concepts as corresponding to mental representations of them, but this analysis is misleading. It is misleading because concepts need not have real world counterparts (e.g., unicorns) and because people may impose rather than discover structure in the world.” (Medin, 1998, p.94)

As Wittgenstein (1958) argued, “what counts as ‘the same’ and what counts as ‘different’ will depend on the point of view taken” (Harris, 1988, p.22).

Even the data that the categorisation is based on are constructed (Sipe and Ghiso, 2004; see also, Schütz, 1982). This is not to say, however, that any categorisation of a given set of data is meaningful. According to Deetz (1996, p.195), concepts could be developed more in relation with organisational members or more being introduced by the
researcher. Rather than asking whether or not a particular categorisation is true, the interesting issue is whether or not it makes sense. The set of categories must make sense of the data and there is no single set out there to be discovered (Dey, 1993, p.110; Lincoln and Guba, 1985, p.347). The intention of categorising is to view the data from a new perspective and it is not merely about reproducing the data; the categorising should reflect the data – i.e., the categories emerge through the reflection (thought) of the analyst (Dey, 1993). To categorise, it is not only scientific talents that are crucial, but also poetic and artistic talents (Bowker and Star, 1999).

The work of creating categories can be understood as a continuous, dialectic process in which the researcher wanders between the empirical data being studied (utterances regarding what is meant by the term in question) and some preliminary dimensions or sets of categories (see, e.g., Dey, 1993; Patton, 2002; Sipe and Ghiso, 2004). The researcher creates some preliminary categories, tests these on the texts, tries a more appropriate way of grouping into categories, tests them on the texts, etc.

At one end of a continuum, the researcher could choose to stick to thoughts and rhetoric that includes the term and thus everything that comes under the term would be of relevance. Alternatively, at the other end of the continuum, the researcher could stick to thoughts and rhetoric that relate to a strictly defined version of the concept (Benders et al., 2007). In this paper, a middle-of-the-road approach will be used. The suggested perspective should be seen as a possible way of approaching management ideas in general and the spread of them in particular.

### 3 Four labels and four themes

All four ideas contain the same four themes. For each of the four ideas, there is a main theme that is indicated in most of the literature dealing with it and is probably how most practitioners in organisations conceptualise it; one of the four themes is emphasised and that is what makes each idea unique (together with the differing labels). In this part of the paper, the main theme of each of the four concepts is described, together with the less emphasised themes. Examples from the literature are used to show that each of the four themes comes into view together with each one of the four labels.

#### 3.1 Knowledge management

Most commentators would probably agree that the focus of the idea of knowledge management is the spreading and sharing of knowledge throughout the organisation. When the organisational learning perspective indicates the storing of knowledge in everyday routines, etc., the knowledge management perspective primarily involves making knowledge (especially non-routine knowledge) available to individuals. Ives et al. (1998, p.272), for instance, saw knowledge management as “the effort to make the knowledge of an organization available to those within the organization who need it, where they need it, when they need it, and in the form in which they need it”. Scarbrough and Swan (2001, p.3) described it as “ideas, tools and practices centring on the communication and exploitation of knowledge in organizations”.

The second most influential element of the knowledge management literature is probably knowledge storing, which is sometimes even included in the definition of
knowledge management. Bukowitz and Williams (1999, p.230), for instance, introduced the “storage of knowledge” as an essential part of knowledge management, in addition to the creation and flow of knowledge, while Templeton and Snyder (1999, p.706) saw “knowledge embedding” as an important outcome of knowledge management. Empowerment is also given quite a lot of space in the literature on knowledge management. Grant (2001, p.157) viewed empowerment decisions – i.e., “where authority to make decisions is delegated to those with the relevant knowledge” – as a prerequisite “where knowledge is tacit or is not readily codifiable”. Also the theme of learning facilitation appears in the knowledge management literature. Nonaka et al. (2001, p.37), for instance, saw it as essential that knowledge is shared “to ensure that there is an atmosphere in which an organisation’s members feel safe sharing their knowledge”.

3.2 The learning company

The learning company literature is reflected in Pedler et al.’s (1988, 1991) writings. Few other authors have used this term, favouring the term learning organisation instead. Thus, I will concentrate on the work of these three British authors here. The focus of this literature is on learning facilitation. Their work is quite permeated by this theme, and they have even stated that “one of the defining characteristics of the learning company is of being a place that encourages everyone who works in it or who has contact with it to learn” (Pedler et al., 1991, p.84). They described it as a culture or climate “where failures, accidents, breakdowns and mistakes are learned from so that they can be avoided in the future” (Pedler et al., 1991, p.72).

Although Pedler et al. certainly focus mainly on the theme of learning facilitation, their works also contain other themes. For instance, empowerment (the main theme of the learning organisation concept) is obvious in that one of the characteristics of a learning company, is an “enabling structure” that would make the learning company rely “less on line management and more on individual responsibility, autonomy and decision-making” (Pedler et al., 1991, p.78). Empowerment is probably the second most influential theme in their books, but these also include the theme of knowledge sharing, e.g., when discussing the issue that “much needed know-how exists just around the corner, but you didn’t know that and perhaps you didn’t ask” (Pedler et al., 1991, p.172) as well as the importance of “how we can get to know what is available in the way of knowledge and skills throughout the company” (Pedler et al., 1991, p.172). The theme of knowledge storing is apparent when they discuss “how the changes in culture, climate, style, ethos and attitudes [are] to be ‘encoded’ in the various rules, roles, procedures and systems of the organisation” (Pedler et al., 1988, p.19).

3.3 The learning organisation

The main theme of the learning organisation literature is empowerment. Writers describe the learning organisation using concepts such as shared authority, flat organisation, decentralisation and empowerment. For instance, Senge (1990, p.287) described learning organisations as “localised” organizations that extend the maximum degree of authority and power as far from the ‘top’ or corporate centre as possible”. Watkins and Marsick (1993, p.258) claimed that the leaders of learning organisations “decentralize
decision-making and empower employees at all levels of the organization to make decisions and take action regarding work responsibilities. The result is a flatter organization and movement away from hierarchy and unnecessary bureaucracy”. Marquardt and Reynolds (1994, p.56) argued that “learning organizations realize that empowered workers can make better decisions than managers can because they need and have the best information”.

Over and above the main focus of empowerment, the literature on the learning organisation also includes the other three themes. The second most popular theme in the literature on the learning organisation is probably learning facilitation. For instance, Watkins and Marsick (1993, p.193) noted that “learning is facilitated in the learning organisation by a participatory, democratic culture”. In Garvin’s (1993) description of how to build a learning organisation, one of five ‘building blocks’ is “transferring knowledge quickly and efficiently throughout the organization” (p.81), which indicates knowledge sharing. Knowledge storing, i.e., the main theme of organisational learning, is also indicated in the literature on the learning organisation. Watkins and Marsick (1993, p.21) described change in the learning organisation as “a cyclical process of creating knowledge (the change of innovation), disseminating it, implementing the change, and then institutionalizing what is learned by making it part of the organisation’s routines through, for example, operating procedures or policies”.

3.4 Organisational learning

The main theme of organisational learning is storing knowledge in routines, standard operating procedures, documents, manuals and mental models. This is sometimes called the organisational memory (e.g., Argyris and Schön, 1978; Cyert and March, 1963; Hedberg, 1981). This affects the everyday behaviour of organisations and focuses attention on what to learn. Individuals learn as agents of the organisation (Argyris and Schön, 1978). However, as Argyris and Schön (1978, p.19) put it, “in order for organizational learning to occur, learning agents’ discoveries, inventions and evaluations must be embedded in organizational memory”. Kim (1993, p.37) saw “the process through which individual learning becomes embedded in an organization’s memory and structure” as so crucial that he located it “at the heart of organizational learning”. Thus, the storing of knowledge in the organisational memory seems to be a crucial theme of organisational learning.

Nevertheless, fragments of the other themes are also present in the literature. In a review of the literature relating to organisational learning, Huber (1991) saw information distribution as an essential part of organisational learning. As Huber used the terms ‘information’ and ‘knowledge’ interchangeably, information distribution seems to cover pretty well the essence of knowledge sharing. This connection gets even stronger in that Huber considers it a problem that organisation members who need information do not know of its existence in other organisation members. Dixon (1994, p.129) linked organisational learning to “shared authority”, which is an important part of the theme of empowerment. The same author claimed that the lack of freedom, equality and respect in organisations could explain why “so little organizational learning occurs” (Dixon, 1994, p.81). This comes close to learning facilitation.
Homogeneity or heterogeneity?

4 Discussion

Having outlined the overlapping components of these ideas, we will now discuss whether or not this perspective on management ideas, as different blends of the same themes, means that ideas are homogeneous or heterogeneous, whether they contribute to homogeneous or heterogeneous practice and whether ideas can be seen as new or old. Finally, some possible implications of this way of approaching popular management ideas, both for research and for practice, will be outlined.

4.1 Management ideas – ambiguous or unambiguous?

There are, of course, many ways to define and demarcate ideas. A first option is to, as many tend to do, view the terms ‘idea’ and ‘label’ as synonymous. For instance, many of those studying the popularity of specific ideas in the literature, the so-called PMI (print media indicator) studies (see Benders et al., 2007), demarcate ideas by means of their labels (e.g., Abrahamson, 1996a; Kieser, 1997; Ponzi and Koenig, 2002; Ryan and Hurley, 2004; Spell, 1999). They do not address the fact that a particular label might have different meanings in different settings.

A second option is to define, and thus demarcate, an idea as all interpretations of a label or term (cf. Medin, 1998). For instance, Mazza et al. (2005) studied MBA programmes at four business schools in terms of utterances from documents and interviews, relating to the term MBA.

The ideas approached in terms of consisting of the same set of themes could thus be interpreted as four different ideas as their labels are different, with slightly different contents. The contents in their entirety are the same for the four ideas in that they all consist of the same themes; however, the focus differs – each idea emphasises different themes. Each idea is characterised by hybrid discourse, as a result of discourses attempting to colonise one another (Thomas, 2003, p.795). This would indicate that management ideas in general, and the four ideas concerning knowledge and learning analysed in this paper, in particular, are ambiguous in the sense that they contain different perspectives or themes.

A third option for defining and demarcating ideas would be to claim that an idea is the rhetoric relating to a certain theme, no matter what it is called. This is a rather obvious way of conceptualising ideas, but is used remarkably seldom. This is probably due to the fact that it is quite difficult to communicate ideas without naming them. Accordingly, each of the themes of knowledge storing, empowerment, learning facilitation and knowledge sharing could be seen as ideas in their own right, which all come under the same set of four names: organisational learning, the learning organisation, the learning company and knowledge management. In this interpretation of the concepts, the content of management ideas is in focus, while the label is the point of convergence if they are interpreted as four similar ideas. Seen from this content-focused perspective, the ideas are instead unambiguous.

Accordingly, ideas are either ambiguous or unambiguous, depending on how the term ‘idea’ is defined. In this sense, those who use the labels as synonyms (e.g., organisational learning and the learning organisation) and those who distinguish between them could both be right.
In the following, the definition of ‘ideas’ presented above will be used – that is, an idea is its label and the most accepted interpretations of it.

4.2 Does the spread of management ideas lead to homogeneous or heterogeneous practice?

The line of reasoning used in this paper so far has been based on studies of the literature on knowledge and learning in an organisational context. However, it is important to link this to the debate about the diffusion of management ideas that deals with practice and whether or not the spread of management ideas leads to homogeneous or heterogeneous practice within organisations. This is not only an empirical question; it is also one of definition – primarily of what it is that is spread (that is, how ideas should be demarcated).

Neo-institutionalists, for instance, were originally interested in explaining why organisations look so similar. Some of these theorists argue that organisations show congruity with the norms of the environment. As many organisations are exposed to the same norms, they have a similar appearance – but only on the surface. The norms never really affect practice, though; organisational actors refer to the norms while talking only, so that the organisation can appear to be legitimate (Brunsson and Olsen, 1993; Meyer and Rowan, 1977). Other neo-institutionalists argue that norms actually affect practice within organisations, which thus take on a similar appearance (e.g., DiMaggio and Powell, 1983). That different organisations are becoming more similar due to the diffusion of ideas is also a common assumption among management fashion theorists (e.g., Abrahamson, 1996a). In recent years, neo-institutionalist researchers have also become interested in the question of why organisations are dissimilar – despite their adopting the same idea. They argue that actors in different organisations translate one and the same idea differently, in accordance with their specific contexts (see, e.g., Nohria and Eccles, 1998; Sahlin-Andersson, 1996; Sahlin-Andersson and Engwall, 2002b). Thus, most of the literature on the popularisation and diffusion of management ideas describes the ideas either as homogeneous, leading to standardised organisational practice, or as open to different interpretation, leading to differentiated organisational practice.

However, the perspective on management ideas suggested in this paper provides a slightly different understanding of their diffusion. As all these ideas contain the same limited set of themes, they are able to provide both homogeneity and heterogeneity. Røvik (1998) argues that any particular idea could be translated in terms of either being copied or partly imitated. Hence, two organisations might implement the same learning organisation theme – e.g., empowerment – which would result in homogenisation, i.e., isopraxism (Erlingsdóttir and Lindberg, 2005). Another organisation, however, might implement another theme of the same idea – e.g., knowledge storing – which would lead to heterogeneity. This has been called polypraxism (Erlingsdóttir and Lindberg, 2005). On the other hand, all these organisations have implemented a learning organisation as they all use the label of the learning organisation, known as isonymism (Erlingsdóttir and Lindberg, 2005). Furthermore, the implementation of different ideas can actually contribute towards homogeneous practice. This would be the case, for example, if two organisations both implemented the knowledge sharing theme, but one of them linked it to the learning organisation while the other referred to knowledge management. The same term is used for different practices, i.e., polynymism (Erlingsdóttir and Lindberg, 2005).
Homogeneity or heterogeneity?

The spread of ideas can thus lead either to homogeneous or heterogeneous practice within organisations or actually to homogenisation as well as heterogenisation simultaneously (depending on which of the themes is being implemented). When a set of ideas in the same area is spread at the same time, it could be assumed to simultaneously lead to isopraxism and polypraxism, as well as to isomorphism and polymorphism. All of this takes place during simultaneous isonymism and polynymism.

4.3 Are management ideas new or old?

The perspective of management ideas as labels coupled to themes that are emphasised to various degrees can also be related to the question of whether ‘new’ ideas really are new, or if they are ‘old wine in new bottles’ (see, e.g., Benders and van Veen, 2001, p.47; Kimberly, 1981, p.100; Lammers, 1988, p.214; Mazza and Alvarez, 2000, p.576; Örtenblad, 2007; Spell, 2001). The latter is probably the more common answer to this question at present. For instance, Spell (2001) shows that management fashions are sometimes created by combining old, known and unthreatening beliefs with new labels.

Even this debate is partly conceptual. To decide whether an idea is new or old, it has to be defined and demarcated.

When it comes to the four ideas that are the focus in this paper, some scholars indicate that these ideas are more or less identical. For example, many have used the labels of organisational learning and learning organisation synonymously (e.g., Fulmer et al., 1998; Hawkins, 1994; Klimecki and Lassleben, 1998; Nevis et al., 1995; Preskill and Torres, 1999; Senge, 1990; Sowards, 2007). In addition, organisational learning can be seen as a part, or an aspect, of the learning organisation (Jones and Hendry, 1994; Marquardt, 2002; Ryan and Hurley, 2004; Örtenblad, 2002) and the learning organisation can be seen as a special case of organisational learning, focusing on the application and implementation of the latter (Easterby-Smith, 1997). Most researchers would probably view the learning organisation and the learning company as similar, if not synonymous (see, e.g., Marquardt and Reynolds, 1994). Baines (1997) argues that there is a great overlap between the learning organisation and knowledge management concepts. Thomas and Allen (2006) suggest that knowledge management is a category of the learning organisation. Marquardt (2002) sees knowledge management as a subsystem of the learning organisation. Wilson (2002) claims that organisational learning work now comes under the heading of knowledge management. Consequently, it would make sense to argue that the origin of management fashions may simply be other management fashions (Spell, 2001).

Others prefer to see the ideas as distinctly different concepts. Scarbrough et al. (1999) claim that the concept of knowledge management is not a development of the concept of the learning organisation, which was what they first believed. They found that these two concepts focus on different areas. Furthermore, many scholars have outlined differences between organisational learning and the learning organisation (e.g., Argyris, 1999; Argyris and Schön, 1996; Easterby-Smith, 1997; Easterby-Smith and Araujo, 1999; Easterby-Smith et al., 1998; Edmondson and Moiingeon, 1998; Elkjaer, 1999; Finger and Bürgin Brand, 1999; Leitch et al., 1996; Örtenblad, 2001; Sun, 2003; Tsang, 1997). Accordingly, emerging ideas could be assumed to be new.

The perspective on management ideas suggested here implies that the same themes reappear. Every single idea has a label of its own, which may reflect the different foci of
the ideas – i.e., that different themes are emphasised. Consequently, the same idea reappears time after time, but with a different label. However, these ideas are simply not ‘old wine in new bottles’. In addition to the presence of the knowledge management label, the novel thing about the idea of knowledge management, for instance, seems to be that it emphasises knowledge sharing more than its predecessors did. Accordingly, the idea of the learning organisation, when it appeared at the end of the 1980s, was a slightly modified variant of the more academic idea (see, e.g., Argyris and Schön, 1996) of organisational learning. The same goes for the idea of the learning company, which also appeared in the late 1980s. And knowledge management is another, slightly modified variant of the same theme. The ideas are definitely not new, but there is something different to them other than their labels – they also emphasise different themes.

To continue on the wine bottle metaphor, in this case each bottle of wine from the same wine district contains a unique blend of grapes. For instance, in some parts of the Bordeaux district, Cabernet Sauvignon is the dominant grape. It is blended with Merlot and Cabernet Franc. In other parts of the district, the latter grapes dominate, even though Cabernet Sauvignon grapes also go into the wine (cf. Örtenblad, 2007).

4.4 Implications for research and practice

The invention of ‘new’ ideas can thus be understood, to a greater or lesser degree, in terms of copying other ideas. It is just a matter of changing the label and emphasising another of the themes. Those who aim to create ‘new’ ideas and become management gurus (cf. Huczynski, 1996) will thus not have to work very hard.

When it comes to practice and practitioners, the suggested perspective indicates that not very much is required to claim that an organisation has now adopted knowledge management for instrumental use (Cohen and Levinthal, 1990; Pelz, 1978), if it had previously implemented another one of the knowledge/learning ideas. For symbolic purposes (Brunsson and Olsen, 1993; Meyer and Rowan, 1977; Pelz, 1978), organisations do not have to make major changes to become, or remain, legitimate – all they have to do is to change the emphasis (to another theme) and use another label.

As ‘new’ management ideas might not be so new after all, one consequence of the suggested perspective is that management researchers should not consider it so urgent to examine ‘new’ management ideas – at least not if these ideas appear in a field where there are already significant management ideas in use.

5 Concluding remarks

This perspective on management ideas as labels coupled to themes that are emphasised to various degrees does not indicate, as most scholars tend to have done, any simple answers. Instead, it implies that management ideas are both ambiguous and unambiguous, that organisations are becoming both more similar and more dissimilar as a consequence of the spread of management ideas and that the ideas are both new and old.

It would be very interesting to see if the suggested perspective on management ideas also makes sense in relation to other areas. For instance, could the ideas ‘business process reengineering’, ‘total quality management’, ‘Kaizen’ and ‘just-in-time’ also be described as consisting of a limited number of themes that reappear in all of them (see, e.g.,
Castle, 1996, who suggests that business process reengineering could be seen as a subsystem of total quality management? What about ‘virtual organisation’, ‘imaginary organisation’, ‘interorganisational networks’ and ‘outsourcing’ or ‘empowerment’, ‘decentralisation’, ‘work-place democracy’ and ‘flat organisation’? Is it possible – and does it make sense – to describe these groups of ideas, too, as containing a limited number of themes that reappear, but with new labels and new foci?

Another suggestion for further research would be to investigate whether or not there is a connection between any of the four themes, which I have argued that the four studied ideas consist of, and professional groups. This suggestion is based on a previous claim that different professional groups colonise the same idea and in doing so reconstruct the idea differently (Swan et al., 2001). Since I claim that the same themes reappear, albeit under different labels, it would be interesting to study whether or not this is because the same professional groups are involved in all of the ideas and try to colonise the ideas in accordance with their interests.

References


Homogeneity or heterogeneity?


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The offshoring of financial services: a reassessment

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Abstract: Operating in an increasingly competitive market environment, financial services companies are engaged in international reengineering of business processes mirroring developments in manufacturing over the past four decades. We examine the distinctive ‘anatomy’ of offshoring in financial services, an industry which also manifests a high degree of geographical concentration for ‘higher order’ functions. We argue that, while offshoring offers considerable cost advantage in terms of labour arbitrage, the devolution of key business activities to downstream and distant providers carries with it considerable strategic risk and managerial complexity.

Keywords: offshoring; financial services; higher order functions; geographical concentration; labour arbitrage; strategic risk.


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1 Introduction and methodology

At the centre of recent debates concerning business organisation have been discussions concerning the possibilities of business process outsourcing (BPO) and its possible limitations. In the financial services sector, there has been a strategic realisation in recent years that economies can be gained in a highly competitive market environment by separating out ‘back office’ activity and relocating its performance to lower cost locations either ‘near’ or ‘off’ shore. The introduction of microcomputers and networked computer terminals has added impetus to the decentralisation of more routine functions, this leading to a ‘spatial bifurcation’ [Warf, (1989), p.267] in many large finance firms.

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The rationale underlying the offshoring of routine activity in financial services and similar sectors is well-captured by Robert-Nicoud (2008, p.517) as follows:

“Offshoring, or overseas sourcing of routine tasks, generates efficiency gains that benefit consumers and workers with skills similar to those whose jobs are threatened by offshoring. Essentially, the interaction between offshoring, footloose capital and agglomeration economies locks the comparative advantage of advanced nations in complex or strategic functions while labour services in 'routine' tasks, the coordination of which is easily codified, are provided by developing nations through the fibre optic cable.”

The financial services industry thus offers a contradictory picture of the international division of labour at the start of the new millennium. On one hand, the sector exemplifies 'path dependent' tendencies towards concentration of people and processes in major metropolitan centres. On the other hand, the ‘light’ and electronically transmittable nature of the financial product has permitted the reorganisation of productive activity into international ‘financial factories’ with scant regard for national borders.

Following the deregulation of financial services during the 1980s and 1990s, firms have gravitated to major financial centres, this promoting geographical concentration of headquarters (Dicken, 2003). As Martin (1999, pp.19–20) states:

“Foreign banks and related institutions have moved into these centres precisely because of geography, that is to expand their presence or gain access to specific markets, to capitalise on the economies of specialisation, agglomeration and localisation (skilled labour, expertise, contact, business networks, etc.) available in these centres, or to specialise their own operations and activities geographically.”

Dicken (ibid.) suggests that tendencies towards concentration may be attributed to the distinctive features of the finance industry, which relies upon cooperation between firms as well as competition. In a profession where contacts are vital for generating business and information about business, ‘relationship management’ is an essential activity (Thrift, 1994). Similarly, Dicken argues that ‘micro networks’ perform a vital function in price setting and related activity, resting upon the twin needs of sociability and proximity (Thrift, op. cit.). In the leading financial metropolises, strong cultures are established which are conducive to the interpretation of complex information in a reflexive fashion and economies of scale created in factors such as linked services including accounting legal and computer-based (Dicken, ibid). The relational nature of the factors that have contributed to the agglomeration of financial institutions in leading metropolitan centres have clearly accumulated over a period of time and possess a highly localised quality, scarcely being amenable to replication beyond distinct geographic boundaries.

Offsetting the trend towards concentration of ‘higher order’ functions, large scale interest in the relocation of a range of service activities has become pronounced over the past five years or so in the city of London and more widely across Europe, following earlier developments in the USA (Gordon et al., 2005). Although different weights are attached to the factors driving offshoring and outsourcing, agreement has coalesced that these two intertwined phenomena are driven by economic, organisational and institutional factors.

First, increased competitiveness and the need to sustain profits has led to the deverticalisation of firms and reengineering in order to arbitrage costs and seek new knowledge and innovation (Jacobides, 2005; Coe, 1997). The separation of work geographically and organisationally has involved longer and more complex value chains
The offshoring of financial services

(Gupta, 2006; Gupta et al., 2006). Second, advances in, and the standardisation of technology have made skills more portable between firms, resulting in declining costs (Miozzo and Soete, 2001; Grimshaw and Miozzo, 2006), while the growth of accepted industry standards has reduced the risks of offshoring (Aspray et al., 2006; Graz, 2008). Taken together, these have increased the distances over which the arbitrage of knowledge and labour costs can occur. Third, processes of offshoring and outsourcing will be shaped by institutional influences in sender and receiver countries (Grimshaw and Miozzo, ibid.; Lakha, 1994; Balasubramanyan and Balasubramanyan, 1997). At an international level, important institutional developments such as the deregulation of financial markets, GATT, TRIPS and EU enlargement have been important in differentiating the geography of space and costs (Ellis and Taylor, 2006).

Accordingly, three main sets of servicing functions are subject to relocation:

- Call centres of various kinds for marketing, routine business enquiries and more sophisticated technical support.
- IT functions, including data-processing, code checking, software development and modification. Operations support, publishing and statistical analyses.
- Wider business support functions of various kinds, including accounting/payroll operations, paralegal work and record maintenance [Gordon et al., (2005), p.19].

In this article, after considering major theoretical perspectives impinging upon offshoring, we aim to cast light upon the strategic rationality and functional areas appropriate for offshoring, (and which functions must remain ‘in house’), reasons for selection of the host environment; systems of control over offshored operations; and critical management challenges in devolving strategic and functional responsibilities ‘downstream’, particularly in the field of employment.

As well as deriving our argumentation from extensive published surveys concerning the offshoring and outsourcing of financial services and by a search of academic and professional literature on the subject, since January 2008, we have explored these questions by conducting face to face and telephone interviews with leading managers from two major international financial concerns (at vice presidential and managing director level) who have been responsible for incepting and implementing offshoring policies. These data were supplemented with an interview with a partner in a leading US-based financial services consultancy and further face to face interviews with UK-based software manufacturers who have offshored business processes.

2 Conceptual framework

While the agglomeration of finance companies’ headquarters in specific global localities may be explained by notions of ‘path dependence’ and ‘embeddedness’, three interrelated strands of theory provide insight into the rationale for the international decentralisation of operating units, these reflecting earlier developments in manufacturing:

- International or spatial division of labour: Guiding the reorganisation of production across national boundaries over the past four decades in industries such as motor manufacturing and clothing has been the realisation by companies that competitive advantage would flow from retaining certain business functions ‘in house’, while
disaggregating, or externalising, elements of the production process as appropriate overseas to realise cost efficiencies (Ghoshal, 1987). Underlying such sourcing decisions has been the strategic realisation that lower ‘value added’ industrial activities may most suitably located in less advanced regions, while higher grade ‘knowledge orientated’ skills will be the preserve of the most advanced nations. As a result of differentiated patterns of industrial development resulting from institutional and cultural diversity across national borders, different countries and indeed regions within those countries, may offer distinctive and appropriate specialist skills.

- **Lean production:** Closely associated with the concept of the international division of labour and emerging as a production paradigm from the Japanese automobile industry, it was recognised in the 1970s that, although various models of vehicle were different, problems of duplication existed between many components and the basic ‘platform’ on which each model was built. Accordingly, significant rationalisation of the production process involved the reduction of platforms and components to a minimal number, each of which was shared with other models within the firm’s product portfolio (Dicken, ibid.). Associated with this strategy is the concept of mass customisation which refers to the selling of highly individualised products on a mass scale, ideally reversing the production paradigm from ‘production-push’ to ‘demand-pull’ (*The Economist*, 2001). The manufacturing ‘imperative’ of lean production has been associated with a broader and thoroughgoing debate occurring mainly in the 1980s and early ‘90s on the potential transferability of Japanese organisational principles, or Japanisation, to the USA and beyond (Womack et al., 1990). Central concerns which have influenced international management thinking have been the significance of flexible production systems to meet niche consumer demands, the removal of duplication and slack in productive processes and the importance of highly committed workforces. The debate on Japanisation has been joined by the critical labour process school (for example, Turnbull, 1986; Ackroyd et al., 1988), which has argued that the widespread inception of principles of lean production has been associated with trenchant assertion of managerial control, the intensification of work and the subtle socialisation of employees into corporate value systems and cultures.

- **Global production networks:** There is a growing recognition in the contemporary map of international business that ‘jigsaws’ of organisational relationships now straddle local, national, regional and global spheres. Moving away from the ‘linear’ notions of international product manufacture or service provision, contemporary concepts of international governance recognise complexity, involving ‘horizontal, diagonal, as well as vertical-forming multidimensional, multilayered lattices of economic activity. Following from this, international businesses in a market context are typically involved in a ‘spider’s web’ [Dicken, (ibid.), pp.16–17] of collaborations with other enterprises whose resources can be utilised for competitive advantage. Typically, then, international enterprises may opt to externalise transactions to third parties, this engagement being governed by ‘the market’. Alternatively, networks may be incorporated within the firm through vertical integration and organised in a hierarchical fashion. The orientation of international companies to internalise, externalise or adopt a combination is associated with the resource-based view of the firm (Barney, 1991) which asserts that firms gain competitive advantage through their propriety control of immobile and
heterogeneous resources relating to physical capital resources (for example plant, equipment and raw materials), human capital or intangible resources (expertise, knowledge embedded in workers, relationships, etc.) and organisational capital resources (for example structures and strategies, planning and controlling). Internal advantages are accrued if it is more profitable for a company to exploit its ownership advantages itself in another country, rather than to sell or license them.

While the international reorganisation of production has tended to be the preserve of manufacturing companies, there has been a growing realisation in financial services that the above principles possess utility in a sector which is increasingly characterised by commoditisation, hyper-competitiveness, the growth of niche markets and the need for stringent cost reduction. According to a report by the leading financial services consultancy Capco:

“Recent research conducted jointly by a team drawn from Capco and the London Business School highlights how the world’s top financial services firms are deploying new sourcing strategies and models to move up the process innovation curve. This closely resembles events that have already occurred in the manufacturing sector, wherein best-in-class companies like General Electric have developed sophisticated sourcing models to optimise the value chain of their operations. By componentising their business processes, the financial services firms have begun to look at each component independently of the other components while selecting the best sourcing option... Should the trend continue tomorrow’s banks would look and behave no differently to a factory.”


While it is tempting to assert that these developments in financial services processes represent a repeat of earlier international business developments in the manufacturing sector, both in terms of observed practice and strategic motivations underlying change, such a conclusion should be tempered by the following observations. Firstly, the move towards business service deconstruction and the establishment of modular business platforms on an international basis has occurred in a relatively small number of exemplary organisations to date. As Gupta (ibid.) points out, most financial services firms are saddled with rigid, inflexible legacy technologies and processes, this problem being exacerbated by insular and risk-averse management styles. Secondly, where international business reorganisation has occurred in financial services and related business activities, it has arguably demonstrated qualitative differences from its manufacturing counterparts. The service sector appears potentially more ‘fleet of foot’ than industries engaged in production of physical products. Commitment to fixed investment is likely to be less than in manufacturing, while progress with broadband communications allows overseas work to be supervised in real time. Yet while the growth of offshoring in business services and related activity may be regarded as an extension of BPO, commonly manifesting the manufacturing-based strategy of ‘contracting with an external organisation to take primary responsibility for providing a business process or function’ (Ghosh, 2004), it may also be argued that the potential international organisational permutations available to financial concerns represent a quantum leap in complexity and sophistication.

As Gordon et al. (ibid.) reveal in their study of the city of London, the round of offshoring activity witnessed involves both the establishment of new captive facilities owned and managed by the firm itself and outsourcing to new local vendors, many of whom are large scale suppliers to a range of international businesses who are able to
benefit from economies of scale and scope. Irving et al. (2003, p.104) predict that this trend will continue in a global context where ‘financial services firms learn to take full advantage of third party contract manufacturers who not only provide business processing services but make it possible for the financial services firms of tomorrow to become virtual organisations that focus predominantly on servicing their clients’.

3 The anatomy of offshoring

The aforementioned LBS/Capco survey (Gupta, ibid.) reveals that a wide variety of strategic options are available to firms aiming to reconstruct their business operations on an international basis, these manifesting differing degrees of tightness in ownership and control. Highlighting a major contribution of the LBS/Capco study, it is now over-simplistic to suggest that sourcing options occupy two ends of a spectrum, i.e., maintaining full control via fully operating centres or fully outsourcing end-to-end-back office or information technology (Gupta et al., 2006).

Table 1 Outsourcing and offshoring options

<table>
<thead>
<tr>
<th>Complete ownership</th>
<th>Nearshore</th>
<th>Offshore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Onsite (neither outsourced or offshored)</td>
<td>In-house, nearshore (captive centre in nearby location)</td>
<td>Captive offshore</td>
</tr>
<tr>
<td>Shared ownership</td>
<td>JV onshore</td>
<td>JV nearshore</td>
</tr>
<tr>
<td>No ownership</td>
<td>Onsite vendor</td>
<td>Offsite nearshore vendor</td>
</tr>
</tbody>
</table>

Source: Gupta (2006)

As Figure 1 denotes, complete ownership by the company may be retained onsite, or through captive operations at near or offshore locations. On the other hand, ownership may be outsourced to a third party either onsite, or at near or offshore locations. A range of factors are likely to be taken into account in deciding which ownership option to adopt, but these are likely to relate to:

1 the perceived market worth of the brand or process – the risk of competitor access presenting a disincentive to devolve ownership
2 vendor experience and technology – superior vendor knowledge of an offshore domain providing an incentive to relinquish ownership
3 risk associated with offshore location
4 the nature of the process itself – if immature, high brand impact or direct customer contact this is a disincentive to offshoring (Gupta et al., ibid.).

The shared ownership model has remained relatively unused and experimental, but may be represented as a ‘stop gap’ and easily reversible (Gupta et al., ibid.).

Gordon et al.’s (ibid.) research into offshoring and the city of London reveals that the city-based functions that are less vulnerable to relocation ‘are those related to complex products and services and there is a premium on the management of risk or involving new product development. In addition, there is strong demand for labour that can support marketing of new products which are technically complex to put together and manage’
The offshoring of financial services (ibid., p.6). Furthermore, many of these high added value activities depend on frequent face to face contacts between clients, suppliers, customers and collaborators. On the other hand, this survey finds that functions that are most susceptible to restructuring and relocation are those involving business processes that do not require proximity to the city and are embedded in low risk and relatively routine activity.

Figure 1 Onion layer model of processes amenable to relocation (see online version for colours)

Drawing upon their survey of large firms involved in financial intermediation, representing approximately half of the total investment bank employment in this area (around 63,000 staff) and upon a depiction by McCarthy et al. (2003) on behalf of the Forrester Management Consultancy, Gordon et al. (ibid.) formulate the ‘onion layer model’ of processes amenable to relocation depicted in Figure 1. The outer rings represent the supporting structures of the business, comprising functions and processes for which geographical relocation involves least risks as the value of proximity is limited and a relatively simple product offered. The innermost ring encompasses an absolute need for proximity and represents a vital and highly personalised business resource and competitive asset.

Table 2 Risk, location and product complexity spectrum

<table>
<thead>
<tr>
<th>Low risk of transfer</th>
<th>High risk of transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of proximity limited</td>
<td>Proximity needs very high</td>
</tr>
<tr>
<td>Product provided simple</td>
<td>Product the result of complex matrix of relations</td>
</tr>
</tbody>
</table>

Source: Gordon et al. (2005)

These authors assert that the drive to reduce costs is continually moderated by the need to control risks. Key areas of concern expressed among the contributors to their survey were confidentiality, control over contracts, assignment of intellectual property and back-up systems in offshore centres.
Table 3 Criteria for selecting applications or projects for offshoring based on literature analysis

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description</th>
<th>Perceived suitability for offshoring high if...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business criticality</td>
<td>Importance for fulfilling daily business operations</td>
<td>Business criticality low</td>
</tr>
<tr>
<td>Business specificity</td>
<td>Inherent internal business process knowledge, proprietary industry knowledge or high customisation</td>
<td>Business specificity low</td>
</tr>
<tr>
<td>Codification</td>
<td>Degree of documentation or specification</td>
<td>Codification high</td>
</tr>
<tr>
<td>Complexity</td>
<td>Scope, number and size of interfaces, number of users and sites involved or characteristics of inputs and outputs</td>
<td>Complexity low</td>
</tr>
<tr>
<td>Cost</td>
<td>Cost budget in comparison to other applications</td>
<td>Cost level high</td>
</tr>
<tr>
<td>Intellectual property</td>
<td>Inherent intellectual property</td>
<td>Intellectual property low</td>
</tr>
<tr>
<td>Labour intensity</td>
<td>Labour effort in relation to total effort</td>
<td>Labour intensity high</td>
</tr>
<tr>
<td>Lifespan</td>
<td>Expected remaining lifespan of application or project</td>
<td>Remaining lifespan long enough to justify transaction costs</td>
</tr>
<tr>
<td>Modularity</td>
<td>Separability of applications or projects</td>
<td>Modularity high</td>
</tr>
<tr>
<td>Process formalisation</td>
<td>Development of maintenance activities’ degree of specification and structure</td>
<td>Process formalisation high</td>
</tr>
<tr>
<td>Proximity</td>
<td>Required proximity during development and maintenance, e.g., due to reliance on local knowledge or activities that can only be performed locally</td>
<td>Proximity requirements low</td>
</tr>
<tr>
<td>Regulation</td>
<td>Exposure to external regulatory constraints</td>
<td>Proximity requirements low</td>
</tr>
<tr>
<td>Size</td>
<td>Scope and duration</td>
<td>Minimum size and duration achieved</td>
</tr>
<tr>
<td>Stability</td>
<td>Application stability, stability of requirements</td>
<td>Stability high</td>
</tr>
<tr>
<td>Strategic importance</td>
<td>Importance in terms of helping to implement a company’s core competency and differentiate itself on the market</td>
<td>Strategic importance low</td>
</tr>
<tr>
<td>Interaction</td>
<td>Required personal contact with customer during development and maintenance</td>
<td>Interaction requirements low</td>
</tr>
<tr>
<td>Technology availability</td>
<td>Technology and the availability of knowledge resources on the market</td>
<td>Technology availability high</td>
</tr>
</tbody>
</table>


However, in considering the anatomy of offshoring, it is necessary to guard against a simplistic assumption that high added value, or core, functions will be retained in house, while low added value, peripheral; functions will be subject to relocation. As Gupta contends, there is a growing incidence of vertical business functions being subject to nearshoring and offshoring. This author provides an example of an investment bank which planned to offshore as much of a derivative related process to India in order to
reduce costs. As a first move, the bank decided to offshore confirmation processes. The offshore centre in India took over responsibility for initiating (phone calls, e-mails, etc.) to the parties, while the more experienced resources based in London processed exceptions. Using this model, the investment bank was able to minimise investment in knowledge transfer and training of staff in India, while saving around 40% of operating costs [Gupta, (ibid.), p.46].

4 Factors guiding the selection of host environment

It follows from the above analysis that the selection of the host environment by firms seeking to offshore/outsource will be guided by three major factors which may be regarded as being in tension:

1. cost and particularly labour costs
2. the reservoir of skill availability in the recipient country
3. degree of risk inherent in the host environment.

A concomitant of factor (1) is the package of tax and other financial inducements frequently offered by host governments to inward investors, particularly when they are locating in designated free trade areas. In relation to factor (2), we should note that skill requirements will vary according to both the type of business function being offshored (demanding specialist areas of expertise which may be available in various regions), as well as the overall status of technological and other relevant knowledge in the host environment as a product of its educational and training system. Of course, skill is not a static phenomenon and our respondents referred to a ‘learning curve’ which was frequently experienced by host employees. As recipient regions became more far-flung, offshoring companies are increasingly aware of the degree of political and business risk that accompanies investment decisions, for example in India. However, it is important to note that such risks were mediated by companies by rendering vendors or third parties liable for unpredictable business aspects emanating from the host country, this engaging in a process of ‘externalisation’ (Bakan, 2004).

While the bulk of offshoring activity in financial services and related activities continues to favour India as the host destination, our fieldwork has revealed a growing view among experts that major Indian cities are reaching a ‘saturation point’ as focal points for offshored service operations. In consequence, companies are surveying other global regions, including Eastern and Central Europe and Russia, as well as China as possible venues for relocation. Contingent factors impacting upon a possible change in the geographic trajectories of sourcing in the future include:

1. time zones (temporal closeness to London and New York Stock Exchange operating periods)
2. political influence (for example, the European Union supporting intra European investments)
3. staff loyalty, labour arbitrage and skilled resources (which is available in many East European countries)
G. Hollinshead and J. Hardy

4 language proficiency (particularly in English) and cultural proximity
5 deterrents against intellectual leakage, which may be related to institutional stability as well as staff loyalty.

5 Discussion – the complexities and contradictions of offshoring

A vital instrument in the establishment of offshoring feasibility is the codification of tasks, this referring to the degree of documentation of an application or the level of requirement specifications on a project. As Westner and Stahringer (ibid.) assert, if the level of codification is high then it is easier for offshore staff to understand applications or tasks, otherwise scope is left for ‘self-generation’ of solutions which implies higher effort and cost (ibid.). Furthermore, complete and unambiguous documentation avoids misunderstandings between client staff and offshore staff, this observation being particularly salient in Indian offshored operations, where there is considerable scope for linguistic misinterpretation. Westner and Stahringer (ibid.) substantiate these observations on codification with the following quotations from stakeholders in German offshored operations (ibid., p.23):

“A very important criterion from my perspective is how well the whole application is documented from a functional or business point of view, as well as technically (senior manager, financial services sector)

“Already during system analysis, you have to document in a way that there is no opportunity for misinterpretations. Because afterwards, communication is only performed via telephone conferences or similar channels.” (employee, financial services sector)

“The more ambiguous something is I hand over, the worse is the result I get back. That is even worse with nearshoring.” (manager, IT sector)

While codification provides an invaluable mechanism for knowledge transfer in the era of the fibre optic cable and componentisation of international business architecture, we may critically observe that its utilisation represents a serious impediment to the flow of broader, negotiated learning and meaning throughout international organisation. Indeed, systems of codification may be regarded as being highly instrumental in reinforcing the hiatus between reflexive ‘double loop’ forms of learning situated in the major metropolitan areas and the restricted form of canonical learning prevalent in offshored utilities.

On the other hand, the process of offshoring inevitably involves the forfeiture of control by headquarters and increased managerial risk. As Aron and Singh (2005) point out, offshoring frequently constitutes as de facto empowerment of vendors and operators in the host country these actors potentially finding themselves in a near monopoly provision in the provision of lower order yet critical business functions and therefore being in a position to demand price hikes in contract renegotiation. Furthermore, the reality of the management of offshoring may often fall short of the idealised approaches espoused by management consultancies such as Capco, this jeopardising the capability of headquarters to retain proprietary knowledge in house on an unequivocal basis. Thus, in particular, Aron and Singh (ibid.) find that companies fail to systematically differentiate and measure the added value of discrete operational elements to establish a value hierarchy and therefore relocate functions in a relatively arbitrary fashion.
Managerial risk is also associated with the reliance placed by offshoring companies on vendors recruiting adequately trained staff in the host location and, more generally, in ensuring quality production or service provision in downstream and distant localities. Such a concern is germane in explaining the typically high degree of interaction between headquarters and offshored utility, this often taking the form of electronic, virtual and informal communication, but also involving expatriation and physical mobility of staff. While much content of international dialogue related to problem solving of technical matters, considerable attention may be devoted by headquarters staff to the dissemination of corporate values in order to engender high levels of staff motivation and company loyalty.

We should note that the relationship between headquarters and offshored utilities should not be presented in static terms. A number of the interviewees in our study referred to a ‘learning curve’ being entered into by subsidiary operations overseas. Indeed, a ‘natural’ progression may be expected over time amongst host country employees from relatively passive, single loop type learning towards more proactive and creative engagement with the enterprise (Michailova and Hollinshead, 2009).

6 Conclusions

Despite the considerable professional and academic ‘heat’ being generated by offshoring, there is evidence that it represents a complex organisational process and that, in practice, the reality of its implementation falls considerably short of ‘best practice’ prescriptions of its advocates. In this article, we have suggested that, while labour arbitrage remains a primary stimulus for the devolution of lower added value business functions to ‘downstream’ international localities, this consideration is mediated by the need to engage skilled operatives overseas, to optimise operational efficiency and to minimise political and related risks associated with the offshoring decision. Indeed the notion of risk is inherent in the international reengineering of organisations as described in this article, as critical areas of business activity migrate beyond the immediate realm of headquarters control and as product or service quality control responsibility is passed to third parties. In these circumstances, the means to engender corporate identity and loyalty, frequently through virtual or electronic means, are becoming both more sophisticated and experimental. Indeed, it is perhaps profound corporate awareness of the risks associated with offshoring that is now prompting a degree of capitulation on the part of financial services companies and growing incidence of reverse offshoring, or ‘insourcing’.

References


The offshoring of financial services


Notes

1 The case study name has been changed for reasons of confidentiality.
Building a framework for a partnership business model

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Abstract: Value in the business model concept is traditionally described from the perspective of end-customers. We argue that this is not sufficient in today’s competitive multichannel environment. We utilise a transactional perspective and extend the notion of exchange of value and resources to the firm’s partners. The developed partnership business model construct is introduced and its usability to analyse interfirm cooperation related to provision of IP multimedia communication services is examined empirically. The goal is to find out why an operator would be a preferred channel for service delivery, and what would make their partnership business model attractive from the partners’ perspective. The results suggest that partners evaluate the attractiveness of the business model of an operator in terms of value and resources. The partnership business model construct provides a valuable perspective to companies who have to consider how to attract good partners to stay competitive.

Keywords: business model; partnership; value; IP Multimedia Subsystem; IMS; IP multimedia communication services; ICT-industry.


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Building a framework for a partnership business model

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1 Introduction

In a market economy business, relationships are marked by a tension between competition, the search for competitive advantage and the need for cooperation between firms that form interdependent networks supplying final products and services to fulfil various customer needs. This paper looks at one sector said to be at the forefront of recent developments in utilising partnerships between firms as means to provide ultimate customer value, that is, the ICT sector. In particular, we explore an emerging technology called IP Multimedia Subsystem (IMS), which is a standardised platform for delivering internet protocol (IP) multimedia services to wireless and fixed networks.

In the ICT sector, technological infrastructures are constantly developing and converging, making value creation to end customers an increasingly complex process for individual firms to manage. Firms must be capable of analysing and improving the given value to both end customers and partners simultaneously in order to be an attractive member of the value network. As technological infrastructures develop and become more complex, current business model conceptualisations and ways of analysing value creation are becoming outdated.

The purpose of this paper is to develop a concept of a partnership business model and to examine its usability in an exploratory case study related to the IMS service development platform and collaboration between an operator and its partners. The partnership business model brings the two different types of theories together; drawing from the literature related to business models (e.g., Magretta, 2002; Mahadevan, 2000; Osterwalder et al., 2005) and partnerships (e.g., Doz and Hamel, 1998; Dyer and Singh, 1998; Gulati, 1998). The key idea of the partnership business model is the possibility of two-folded value creation from the operator’s perspective: value to end-users and value to partners. The value which end-users are looking for and where the future revenue streams lie is in the provision of services. As the telecommunications industry is becoming increasingly service centric, its operators need to have an attractive, value creating business model from the partner point of view, in order to effectively obtain and pool complementary resources from the application developers. This means that to be able to
create, market and deliver value to end-end users, an operator also needs to create value to its partners.

Value creation and complementary resources link the two theory streams on business models and partnerships together. Resources are the rationale to form voluntary cooperative inter-firm relationships aimed at achieving competitive advantage for the partners and pooled resources create potential for value creation. Even though the business model literature has recognised the importance of external partners when creating value to end-users, it does not comment on the compensation or value for the partners. In this paper, it is proposed that value creation occurs both to end-users and partners from the operator perspective. Value can be offered to partners in the forms of reduced end-user search costs, product promotion costs, business transaction costs and shorter lead times for business transactions, for example.

The exploratory case study presented in this paper applies this framework to examine what is expected from an operator’s partnership business model from its partners’ perspective. These expectations relate to the benefits of the partnership business model in forms of complementary resources and value offered when deploying the IMS in service creation and delivery. The IMS as a standardised service delivery platform will enable a faster and a more cost-effective introduction of new, attractive IP-based multimedia communication services, but in itself it will not create value. The data for the case study was collected from 20 interviews.

2 Literature review

2.1 Partnerships and complementary resources

Partnerships are voluntary, cooperative agreements between two or more individual firms. They can occur as a result of a wide array of motives and goals, take a variety of forms and occur across vertical and horizontal boundaries (Gulati, 1998). For a long time, partnerships were explained through the transaction cost theory (Williamson, 1991), but as the theory only focuses on cost minimisation, other theories have arisen to explain the benefits which companies are trying to achieve with partnering. Several other economic viewpoints such as the strategic management theory, resource-based view, game theory and real options theory have been used to explain why firms cooperate with each other (Faulkner and de Rond, 2000). Sociology, social exchange theory and the interaction approach developed by the Industrial Marketing and Purchasing Group (IMP) have also contributed to the theoretical traditions related to partnerships (Blomqvist, 2002; Ebers, 1997; Nassimbeni, 1998). Barringer and Harrison (2000) place the theoretical paradigms in a continuum where the transaction cost theory relies on the economic rationale for inter-organisational relationships and at the other end of the continuum theories rely on the behaviourist rationale.

In this paper, partnerships are understood to be based on the economic rationale of pooling complementary resources and the rationale is explained with the resource-based view. As in transaction cost theory, the resource-based view initially dealt with individual firms and was used to explain how firms compete, stressing the internal aspects of a firm and linking firm resources to firm performance (Barney, 1991; Grant, 1991; Peteraf, 1993; Wernerfelt, 1984). The resource-based view is widely used to explain partnering, it
complements the transaction cost theory and takes into account the value creation aspect which the transaction cost theory does not notice (e.g., Das and Teng, 2000; Dyer and Singh, 1998; Yasuda, 2005).

The resource-based view of the firm argues that firm performance is fundamentally related to firm heterogeneity rather than industry structure (Dyer and Singh, 1998). It stresses the internal aspects of a firm which have usually been left with minor attention when seeking the fit between internal strengths and weaknesses and environmental opportunities and threats (Barney, 1995; Grant, 1991). Similarly to transaction cost theory, the resource-based view is also used to explain the economic rationale behind partnerships. Kale (1999) refers to the resource-based view as a strategic motivation for partnership formation. Accessing the partners’ resources is the main rationale to form voluntary cooperative inter-firm agreements aimed at achieving competitive advantage and subsequent value creation (Das and Teng, 2000; Ireland et al., 2002). Dyer and Singh (1998) broaden this view by stating that along with complementary resources and capabilities, relation-specific assets, knowledge-sharing routines and effective governance contribute to inter-organisational competitive advantage.

As the resource-based view of the firm suggests, firms have specific resource endowments (Barney, 1991; Grant, 1991), but usually need additional resources to be competitive in particular markets (Hitt et al., 2000). Firms search for partners that have resources they can leverage and integrate to create synergy. Complementary resources are important criteria in partner selection. They are distinctive resources of partners which collectively generate greater rents than the sum of those obtained from the individual endowments of each partner would be (Dyer and Singh, 1998; Hitt et al., 2000). However, just possessing complementary resources is not enough and does not guarantee competitive advantage or the creation of value (Priem and Butler, 2001). Resources need to be managed by structuring the firm’s resource portfolio, bundling the resources to build capabilities and leveraging them to create value to customers (Sirmon et al., 2007; Stuart, 2000).

2.2 Business model and value creation

Recent technological advances have brought about an extensive increase in choices and decisions that managers face in terms of business models, partly explaining the growing research interest in the field (Osterwalder, 2004). The objectives for studying business models have varied from trying to understand the key elements and mechanisms in a specific business domain and their relationships, communicating and sharing the understanding of a business model among business or technology stakeholders, specifying valid requirements for the information systems that support the business model, identifying options for changing and improving the current business model to experimenting with innovative business concepts (Pateli and Giaglis, 2003).

There are several schools of thought about the definitions of the business model, reflecting fundamental theoretical differences in the model and strategy conceptualisation. Firstly, there are the definitions that follow traditional Porterian value chain thinking: the definitions that use streams (Mahadevan, 2000) or flows (Timmers, 1998) to describe the functions of the organisation in a meaningful way. The second stream of definitions focuses on resources and reflects the resource-based view of the
firm: these definitions are asset (Boulton et al., 2000) or resources-based (Hamel, 2000). The recent definition of Zott and Amit (2008, p.1) accentuates the organisational arrangement perspective of the concept, stating that: “The business model is a structural template of how a focal firm transacts with customers, partners and vendors; that is, how it chooses to connect with factor and product markets”. In the transactional perspective, it is possible both to describe the functions of the transactions and also to define what resources are needed to enable the exchanges. Finally, incentives are needed to make the transactions happen; namely, customers, partners and vendors have to get added value. In this study, we adopt this transactional perspective of Zott and Amit (2008), with the notion that both value and resources may be targets of transactional exchanges between partners.

The aspect of value has been emphasised in the business model literature. Value proposition is a part of the business model which lays out the key factors underlying a firm’s ability to attract and retain each revenue stream. The value proposition answers questions such as: how to get and keep customers, what the distinctive value proposition to each constituency is, who the customers are and what their needs are, what to offer to them (products, services and experiences), how to reach them and how to price (Linder and Cantrell, 2000; Pateli and Giaglis, 2003). Customers often perceive value arising out of reduced product or service search cost and transaction costs. Added value is also experienced when a better price, improved service, greater convenience and improvised experience are offered (Mahadevan, 2000).

As described above, value in the business model is traditionally described mainly from the perspective of end-customers. However, we argue that this is not sufficient in today’s competitive multichannel environment. Different economic actors need to work together to co-produce value. Firms choose the appropriate external partners which they need to collaborate with and select the activities that will be performed to create value for both of them (McPhee and Wheeler, 2006). Value can be offered to partners in the forms of reduced customer search costs, product promotion costs, business transaction costs and shorter lead times for business transactions (Mahadevan, 2000). The external relationship needs to fit into the overall value proposition of the firm and it can be used to increase value through, for example, innovation, knowledge capture, reputation building, learning and pooling of complementary resources (Anand and Khanna, 2000; McPhee and Wheeler, 2006).

Table 1 summarises how the issue of value has been included in a range of definitions of the business model concept. Based on this conceptual analysis, it becomes obvious that business model definitions concentrate on the issue of customer value formation, whereas the possibility of offering value to partners (either up or down the value chain) is typically vague and at best implicit: typically suppliers, distributors or other partners are just mentioned as needed to deliver value to the end-user. In this paper, we take the partner point of view into the analysis of the business model since the attractiveness of the business model determines to a larger extent which delivery channel the partners are going to use, and how willing they are to contribute to overall value creation. The attractiveness is determined by the complementary resources and the firm’s ability to create value to its partners.
Table 1: Value creation in the business model concept: customer perspective compared to other actors

<table>
<thead>
<tr>
<th>Definition of business model</th>
<th>Perspectives of value creation to customers</th>
<th>Other actors in the business model – the role of value?</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;...An interpretation of the business model as a construct that mediates the value creation process. It translates the technical and the economic domains, selecting and filtering technologies and packaging them into particular configurations to be offered to a chosen target market.&quot;</td>
<td>Value proposition: One of the functions of a business model is to articulate the value proposition, e.g., the value created for users by the offering based on the technology.</td>
<td>Value chain and position of the firm within the value network. The value chain explains the structure within the firm required to create and distribute the offering and to determine the complementary assets needed to support the firm’s position in this chain. The position of the firm within the value network links suppliers and customers and also includes identification of potential complementors and competitors.</td>
</tr>
<tr>
<td>&quot;Business model includes the following causally related components: customers, competitors, offering, activities and organisation, resources, and supply of factor and production inputs. The model integrates firm-internal aspects that transform factors to resources, through activities, in a structure, to products and offering, to market.&quot;</td>
<td>Offering: With the offering component, a favourable quality and price position are stressed. These characteristics enable a company to serve a particular customer segment and compete with the forces in that segment. The offering and general strategies complement each other.</td>
<td>Supply of factor and production inputs: In order to manage the industrial forces and serve the market, a company needs activities, resources and inputs from the factor market (capital and labour) and the supply of raw material. These must be acquired, activated and organised in a way that improves the cost and quality of the offering in relation to customer preferences and competitors.</td>
</tr>
<tr>
<td>&quot;A business model, strictly speaking, is the organisation’s core logic for creating value.&quot;</td>
<td>Value proposition: The value proposition identifies the key factors underlying a company’s ability to attract and retain each revenue stream, explains how a company gets and keeps customers, illustrates the target customers and their needs and identifies what a company offers to its customers in the form of products, services and experiences.</td>
<td>Delivery model: The delivery model explains the key factors that enable a company to deliver the value propositions profitably and consistently and what the distinctive capabilities and relationships needed to deliver the value propositions are.</td>
</tr>
<tr>
<td>&quot;Business models... are, at heart, stories... that explain how enterprises work. A good business model answers... questions: Who is the customer? And what does the customer value?... How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?&quot;</td>
<td>Value proposition: The value proposition answers the questions of who the customer is and what the customer values.</td>
<td>Distribution channel: The distribution channel answers the question of what the underlying economic logic is that explains how we can deliver value to customers at an appropriate cost.</td>
</tr>
<tr>
<td>Definition of business model</td>
<td>Perspectives of value creation to customers</td>
<td>Other actors in the business model – the role of value?</td>
</tr>
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<td>-----------------------------</td>
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<td>------------------------------------------------------</td>
</tr>
<tr>
<td>&quot;...The business model’s place in the firm as the blueprint of how a company does business. It is the translation of strategic issues, such as strategic positioning and strategic goals into a conceptual model that explicitly states how the business functions. The business model serves as a building plan that allows designing and realising the business structure and systems that constitute the company’s operational and physical form.&quot;</td>
<td>Value proposition: The value proposition gives an overall view of a company’s bundle of products and services.</td>
<td>Distribution channel, value configuration and partner network: The distribution channel describes the various means of the company to get in touch with its customers. The value configuration describes the arrangement of activities and resources. The partner network portrays the network of cooperative agreements with other companies required to efficiently offer and commercialise the value proposition.</td>
</tr>
<tr>
<td>&quot;...A business model is considered as the conceptual and architectural implementation (blueprint) of a business strategy and represents the foundation for the implementation of business processes and information systems.&quot;</td>
<td>Value proposition: The value proposition explains the product/service offering.</td>
<td>Value chain or net: The value chain or net illustrates the alliances and partnerships of a given company.</td>
</tr>
<tr>
<td>&quot;A business model ... describes the logic of a ‘business system’ for creating value that lies behind the actual processes. The business model gives rise to the various business processes by describing why certain processes are designed the way they are.&quot;</td>
<td>Value model and customer relations model: The value model identifies the logic of what products, services or experiences and other value-added services derived from core competence are delivered to the customer. The customer relations model has one suitable submodel to value creation to customers. The service model describes the logic behind serving the customer.</td>
<td>Resource model, production model and customer relations model: The resource model explains the logic of how to identify and acquire the necessary resources. The production model describes how resources are combined. The customer relations model has two suitable submodels for value creation to partners. The distribution model explains the logic behind the delivery process and the marketing model describes how to reach and maintain customers.</td>
</tr>
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</table>
2.3 Developed partnership business model construct

Based on the discussion above, we now define the partnership business model construct. Its key elements are value creation to end-users, value creation to partners and resulting attractiveness of the business model. In the context of the technological infrastructure investigated here, it is quite difficult for an operator or partner alone to deliver the value which end-users are expecting from IP Multimedia Communication Services. The attractiveness of the business model in the form of value created to partners is tightly integrated into the obtaining of complementary resources. Without creating value to partners, the operator will not be able to pool complementary resources together and create value to end-users.

Figure 1 Partnership business model construct

In Figure 1, the partnership business model is distinguished with a dotted line. Because of the context of this paper, alternative business models from the partners’ point of view are also illustrated. Compared to the partnership business model where an operator creates value to partners in the form of an attractive business model and pools complementary resources to create jointly value to end-users, partners could choose to operate differently: they could either create value independently to end-users or use other delivery channels than a mobile network operator to deliver the value to end-users in the form of services. This study concentrates on examining the relationship between the focal firm and its partners, thus leaving the value to the end-users out of inspection.
3 Case description

3.1 IP Multimedia Subsystem

The purpose of this exploratory case study was to find out whether the developed theoretical framework could be used to analyse the cooperation between an operator and potential partners and to identify the potential sources of value for the partners provided by the operator. An exploratory case study is aimed at producing new theoretical ideas, propositions or hypotheses or determining the feasibility of the desired research procedures (Eriksson and Koistinen, 2005; Yin, 2003a). An exploratory case study does not usually have any propositions formed in advance, but it needs to have some purpose. The design for an exploratory case study should state the purpose and also include some criteria by which an exploration will be judged successful (Yin, 2003b). The case unit is a new technological infrastructure – IP Multimedia Communication Services – examined from the perspective of an operator and its potential partners in service provision. The data for the study was collected from 14 company interviews and analysed with ATLAS.ti software. General questions and 20 company interviews about service delivery, operator collaboration and cooperation between competitors were asked from all the interviewees who were selected so that they would have enough knowledge of the technological infrastructure in question and its commercial applications, as well as represent the views of different relevant industry players from the operator’s perspective. To increase the face validity of the study, the results and interpretations of the researchers were discussed with firm representatives during the research process. Of all the interviewed company representatives, four companies represented infrastructure vendors, two companies represented system integrators and seven companies were categorised as application developers (see Table 2).

The IMS is a standardised service delivery platform and a set of requirements and specifications defined by the 3rd Generation Partnership Project (3GPP) and 3rd Generation Partnership Project 2 (3GPP2) (IBM, 2007). It began in the 3GPP group as an effort by wireless carriers to standardise service delivery. Now IMS has also been adopted by other international standardisation bodies and it is notably active in at least 14 different standards forums (Fried and Sword, 2006; Ilaltel, 2004).

The work of 3GPP and 3GPP2 has focused on developing technical specifications for a 3G network evolving from GSM and CDMA2000 networks. IMS is at the centre of the 3G wireless communication and the IMS architecture supports the packet switched communication in order to merge the Internet and cellular worlds (IBM, 2007). Initially, IMS was defined for 3G mobile networks but it has now been widely adopted and extended for fixed and broadband networks by the European Technical Standards Institute (ETSI) and the Alliance for Telecommunications Industry Solutions (ATIS). IMS has become the global standard for the all-IP, Next Generation Network (Telcordia, 2005). The platform is designed to allow seamless use of IP services across the fixed-mobile boundary without compromising service quality (TeliaSonera, 2006).

IMS provides a flexible architecture for the rapid deployment of innovative and sophisticated features (3G Americas, 2004a). The IMS promise of rapid and cost-effective development of new, attractive services is based on filling the gap between the existing traditional telecommunications technology and internet technology. Increased bandwidth alone would not be enough (3G Americas, 2004b). This means that IMS will be the catalyst for convergence of different wireless and fixed access
technologies enabling service-driven development and the delivery of new applications and consumption of multimedia services (IBM, 2007).

### Table 2 Interviews conducted for the study

<table>
<thead>
<tr>
<th>FIRM</th>
<th>CEO</th>
<th>Marketing or sales or account management representative</th>
<th>Business development, product development or R&amp;D representative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vendors</td>
<td></td>
<td></td>
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<tr>
<td>Company A (Finland)</td>
<td>2</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Company B (Sweden)</td>
<td>1</td>
<td></td>
<td></td>
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<tr>
<td>Company C (Sweden)</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company D (USA)</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Application developers</td>
<td></td>
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### 3.2 Companies’ relation to IMS

The companies’ relation to the IMS varied according to the category where they belonged. Infrastructure vendors have the most experience with IMS and they have worked with IMS for several years. To many of them, IMS is a logical evolution to technologies they have worked with before. All the infrastructure vendors understand the importance of services on top of the IMS infrastructure and have also created IMS application developer communities. The system integrators’ relation to IMS is quite unsure. Both of the system integrators have been working with IMS for approximately four years and they described their current role as watching and learning with IMS and waiting for the market for this technology to be formed.

The application developers’ experience with IMS varied from a couple of years to completely new to IMS. The applications the developers have created are targeted both to consumers and to enterprise users locally or globally. Besides IMS, the application developers also created applications which use Session Initiation Protocol (SIP) which is also used as a part of IMS. The IMS-based application which the interviewed companies had developed included games, team collaboration tools, VoIP applications, presence, instant messaging, push-to-talk, VideoShare, photo sharing applications, mobile work
force solutions and family calendar. Some companies delivered industry-specific or even company-specific applications when targeting enterprise users.

Some of the application developers interviewed belongs to one or several application developer communities. The opinions about the communities and cooperation between other application developers varied. Some of the application developers did not prefer to cooperate with other developers and did not find application developer communities useful. Positive opinions included that communities and cooperation between application developers are beneficial when testing interoperability, developing the market, promoting applications to operators, and gaining knowledge and technical support. Two small application developer companies had a very friendly attitude towards competing companies and were even willing to promote the services of a competitor along with their own.

Several delivery channels besides the operator channel are used to deliver applications to end-users. The application developers use primarily operators, the Internet and infrastructure vendors, but also others, such as media companies, for example for IPTV, were mentioned as service delivery channels. The infrastructure vendors also mentioned these same service delivery channels when asked how the application developers belonging to the application developer communities were interested in providing their services. When using an operator as a service delivery channel, applications are usually labelled under the operator’s brand name. The internet was seen as a more significant option for replacing the operator as a service delivery channel on the fixed side than on the mobile side and it was also seen as a more suitable service delivery channel for a service targeted to consumers than for services targeted to enterprise users as these services require more reliability.

4 Results and discussion

4.1 Interviewees opinions on IMS and the role of the operators

Interviewees took two quite opposite points of view when discussing IMS in general. They either viewed IMS from the point of view of the infrastructure evolution (technology push) or the service (market pull). The infrastructure vendors tended to look IMS more from the infrastructural perspective and the application developers saw IMS as a service development and provision environment. The application developers also criticised the infrastructure vendors for relying more on technology push than market pull. Many suggest that infrastructure vendors are so keen on building application developer communities because they want to justify the operator investment in new network infrastructure based on IMS through applications. The application developers would rather like to see IMS deployment through actual user needs and market pull instead of infrastructure vendors trying to sell the infrastructure and develop the market for IMS through technology push.

The infrastructure vendors saw the current state and future of IMS quite positively. They saw that IMS as an infrastructural solution is maturing and growing and it is moving from some sort of hype and an optimistic status to a more realistic and practical approach. The infrastructure vendors saw that the current network infrastructure is getting too old and technologically outdated and they were quite sure that IMS will be deployed, but it could take longer than anticipated. The system integrators also pointed out that
infrastructure vendors might be living in an illusion that IMS could be implemented with a clean slate. Operators, however, have many technologies in their networks and the implementation of IMS requires a lot of integration with other technologies and also shutdown of some technologies.

The application developers were more uncertain about how the future of IMS looks like. With the infrastructure vendors they shared the view that sooner or later everything will be based on IP. However, they were not sure if IMS is going to be the solution. Other solutions (such as SIP or IMPS) already exist and provide the same functionality as IMS. They also noted that currently there are parties doing a conversion or building a ‘skin’ so that IMS applications could be used in the old networks and this is undermining the grounds of infrastructure vendors when trying to push the technology.

The interviewees also discussed the role of an operator in the future of IMS. Many of them suggested that the operator is not being proactive enough. The interviewees’ estimates of large scale IMS deployment varied from one year to three years. On the fixed networks, IMS has had a better start than in the mobile networks where it was originally designed. This is probably due to the fact that on the fixed side the threat of new competitors from the Internet world is more concrete than on the mobile side. On the fixed side, the operators understand more clearly that if they do not react in time, their future role will be that of a mere provider of data transmission infrastructure.

“There is a challenge that two worlds will collide: the telecommunications world and its big, slow, expensive processes and the internet world, where things are done lightly and quickly and easily.” (business development representative, Company K)

Stemming from the interviewees’ opinions about the current state and future of IMS, the market needs development. On market development, the active role of operators was emphasised in the interviews. From the market development point of view, infrastructure solutions and applications exist, but the interviewees would like to see operators raising end-user awareness of IMS enabled services. When using the operator as a service delivery channel, the end-user usually sees only the operator from the whole delivery chain. The operator also owns the customer relationships and has the most information about them. This is why the interviewees saw that for the market development, the operator is being the biggest bottleneck.

In the light of the overall discussion around IMS from different stakeholders, the operators seem to be in the most important position that dictates the fundamental success of IMS in the end-customer markets. In other words, other firms expect the operators to craft a lucrative partnership business model. In the following chapters, we explore how operator and application developers co-create the value for the end-users and more importantly, how operator can create value for its partners to enable the eventual customer satisfaction and subsequent profits.

4.2 Value creation to end-users

With IMS it is widely recognised that the value creation potential lies in the new services developed by application developers. The interviewees were asked to define how they offer value to end-users with their services. The infrastructure vendors also elaborated how the application developers belonging to their application developer communities
offer value to end-users. The infrastructure vendors also have an important role in value creation towards end-users since they provide the platform for application development.

“…End-users… they will only notice things work, but they don’t know who’s doing it.” (marketing representative, Company C)

“…When you buy a new mobile phone… when you pull it out of your package once you’ve bought it, you can immediately start doing video calls, messaging, SMS, push-to-talk, etc. You have one address book in your phone which is an active address book so that you can sort of directly see presence of your friends… That is a tremendous value that we would like to bring. And that I think is the major benefit that the operators have in competing with the new internet players.” (marketing representative, Company B)

Application developers offer value to end-users first of all by providing services that are easy or fun to use. Another aspect of value creation is to provide users with exposure or open communities. As many interviewees use an operator as a delivery channel, operator interconnection is an important issue when trying to add value to end-users with communities. Moreover, interworking and interoperability on the terminal and client level is important to guarantee an easy or fun user experience.

4.3 Partnership business model: value creation to partners and complementary resources

The interviewees were asked how attractive they find the operator as a service delivery channel, how the operator can add value to application developers’ business and what kinds of resources application developers are expecting from the operator. Figure 2 shows the results related to value creation to partners and complementary resources in the partnership business model construct.

The infrastructure vendors were asked to elaborate these issues from insights which they have from their application developer communities. As mentioned earlier, the interviewees expect proactiveness from the operator. They emphasise the central role of an operator in the service business and see that an operator has the main responsibility over the service success. Operators know who their customers are; they have information about end-user preferences and required marketing resources to achieve the critical mass of customers for the services. They also have the billing relationship to the customer.

“A good operator is a proactive operator.” (marketing representative, Company B)

“The key for an operator… is to have and interesting business model that really incentivises the application developers to create a lot of and interesting applications.” (marketing representative, Company C)

Especially the smaller application developers felt quite strongly that the decision-making process of the operator is not flexible enough. As it is already difficult for a small application developer to get the attention of a big operator, the smaller application developers wished for clear decisions on timelines to launch the service and marketing support for their service as well.

The interviewees also saw that the operator could provide value to their business by bundling different types of services and they would like to see the operator as a retailer of different kinds of services. They also expect the operator to be more courageous in trying new things. The operator could also use the end-user information more efficiently to
provide the end-users with new services. The interviewees felt that the end-user information which the operator possesses is currently underutilised. Especially smaller application developers expect the operator to help formulate the end-user requirements. The better utilisation of end-user information could open possibilities for customised marketing.

Figure 2 Complementary resources and value creation to partners in the partnership business model construct

The premise of IMS and the opening up of the fully operator driven and controlled application and service provision model could also create value to application developers. The operator needs to expose easy to use interfaces for application developers to create new and attractive applications. The technical support was also seen important. The application developers expect the operator to provide technical documentation, reports and test results. The infrastructure and its billing features were seen interesting, and the test and development environment and its stability could also help application developers to develop and test their applications.

On the other side, there are the resources which the partners are willing to offer to an operator. The most important resource which the partners can offer is the service itself. Related to the service, partners are willing to offer application design, customisation and technical support. These resources are the ones that operator is not likely to possess by itself and are thus complementary from the operator point of view.

In addition to the complementary resources, the attractiveness of the business model was dependent on other factors as well. One essential form of value was the revenue sharing model, which makes the business model attractive by enabling value creation to
partners along with complementary resources. In the interviews, the interviewees were asked to describe what kinds of revenue sharing models they would be interested in related to IMS or SIP-based services. Three types of revenue sharing were proposed:

1. revenue sharing based on the popularity of the service
2. revenue sharing based on a certain percentage
3. licensing.

Related to revenue sharing, a model where an operator buys off the application or service was not preferred. The interviewees thought that the other revenue sharing models would make the operator work harder to push the number of subscribers up. The revenue sharing model seemed to be an extremely interesting topic despite of the type of the model. However, a revenue sharing model which would be fair with respect to shared profits, but would also include incentives for an operator to actively market the service was preferred.

5 Discussion and conclusions

In this paper, we have analysed the concept of business model with a critical viewpoint: While business model describes how a single company does business, what can it tell us about how a firm creates value for its partners? This question is fundamental in today’s networked business environments, where the competitive advantage of a single firm relies heavily on the capabilities gained from its network of different partners. We illustrated the need for a new perspective to the business model with an explorative case study from telecommunications service markets, where telecom operators face increasing pressure to create value to their customer, but also their partners.

The telecommunication service market is maturing, and basic voice and SMS services have already become commodities. The average revenue per user is constantly decreasing in spite of increasing usage. Because of this price erosion, offering basic connectivity is no longer enough for operators to secure long-term growth and profitability. In the future, mobile services will be the main differentiator and the source of new revenues for telecom operators. Even though the technology and resources used to provide services for the end-user are complicated, the end-users still require high quality and coherence in exchange for their time and money. Therefore, operators face a problem of how to deliver advanced, revenue generating services to their end-users. However, operators are not individually equipped to face such challenges: they need partners that produce and design the services for the increasing and more specific end-user demands. In order to collaborate with such partners, operators need an attractive business model to gain and retain partners that receive value in using the operator as their distribution channel.

In our view, the current perspective on business model is not fully capable in examining the issue of value creation to partners as a part of the overall business model. In order to address this shortcoming in the current literature, we conducted a review on the business model concept and suggested a partnership business model concept for analysing the value firm can create to and with its partners. The new concept was developed by utilising both business model and partnership literature. The enhanced value creation perspective and complementary resources are the two central components of the partnership business model construct. The theoretical contribution of this paper lies
in broadening the perspectives of the business model literature by bringing the concept of
the business model to the relationship level. Some insights were also made with regard to
the partnership literature, in terms of how the companies do business together and what
the most important elements of joint business making are.

The results of the exploratory case study highlight the importance of a correctly
designed partnership business model in the case of the IP Multimedia Communication
Services. Since the operator is a delivery channel for many of the interviewed companies,
it has a central role in the eyes of the interviewees and a large operator is an important
business partner especially for small application developers. The interviewees expect
the operator to help them in delivering value to end-users and to create value to them. In
exchange, they are willing to share their resources as long as the business model and
service delivery channel is attractive. It seems that the more options in terms of channel
choice the partners have, the more attractive the business model of the focal firm has to be
in order to ‘lock’ the good partners to the relationship.

In the light of the findings of the case study, it is highly relevant to broaden the
discussion around business model concept to include the creation of value also towards
partners of various types. While this kind of thinking is not new per se, incorporating
value creation to partners to the concept of business model makes possible a new kind of
analysis of the business model. Indeed, traditionally business model has been seen as
means for a firm to do business. By focusing on partnership business model, the firm can
analyse how and what kind of value it provides to its partners.

The most important managerial contribution is identifying the elements of an
attractive business model for the operator from the partner’s perspective: value creation
to end-users must be as easy as possible for the application developers and the model
should enable proactiveness and flexible decision-making. The potential partners
appreciate many complementary resources of the operator: information about end-users,
marketing resources to achieve the critical mass of end-users for the service, providing
easy-to-use interfaces for application developers to create new and attractive services,
technical support (technical documentation, reports, test results) and test and
development environment creation. Finally, it is essential to comprehend that the
attractiveness of the business model leads to the choice of the delivery channel from the
partner’s perspective.

The main limitation of this study lies in its exploratory nature. The case approach
utilised here is based on a singe-case study which is situated in a specific industry and
technology context. Thus, further studies using different contexts as well as different
methodologies (e.g., quantitative surveys) are needed to complement the results
suggested in this paper. We believe, however, that the conceptual and illustrative
contribution of the paper can offer a point of departure for examining the premises of
business model that gives partners and the exchange of resources and value the attention
it deserves in a networked business environment.

References


Building a framework for a partnership business model


The *International Journal of Foresight and Innovation Policy (IJFIP)* publishes high calibre academic articles dealing with knowledge creation, diffusion and utilisation in innovation policy. The journal covers all types of Strategic Intelligence (SI). SI is defined as the set of actions that search, process, diffuse and protect information in order to make it available to the right person at the right time in order to make the right decision. Examples of SI in the domain of innovation include Foresight, Forecasting, Delphi studies, Technology Assessment, Benchmarking, R&D evaluation and Technology Roadmapping. Special emphasis will be put on the use (actual or potential) of the various types (and methods) of SI (creation and diffusion) in the policy-making process. The disciplinary background includes the domains of innovation studies, policy and management sciences and research following the utilisation of knowledge in decision-making processes including recent insights in the domain of knowledge management.

**Objectives**

The *IJFIP* aims to further develop insight into the role of strategic intelligence in innovation policy and practice by acting as a scientific forum and contributing to the interaction between researchers, policy makers and actors involved in innovation processes.

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Scholars in the domains of innovation studies, (public) policy making and management sciences, (innovation) policy makers and other actors involved in innovation processes from the public as well as from the private sector.

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- types of and experiences with institutionalisation of the SI function
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- impact of SI on decision making on innovation
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