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A Brief and Non-Academic History of Management Education

By J.C. Spender
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Some of the people and events that have shaped business schools.

WHILE THE U.S. MODEL OF MANAGEMENT EDUCATION now dominates the world, our industry did not originate in America. The first purpose-built school of commerce was probably the Escola do Comércio, founded after the 1755 Lisbon earthquake. Lisbon was then the center of the rich and powerful Portuguese empire, and the school was established to train public administrators to manage taxes and disbursements.

Elsewhere, management education was also taking root at this time. The first university chairs in Administrative (Cameralist) Science were appointed in Germany in 1727 and in Sweden in 1750. In Moscow, the Practical Academy opened in 1804; in Paris, the ESCP was founded in 1819 as a standalone school. Schools of commerce also were founded in Vienna and Budapest in 1856 and in Venice in 1868.

Many of the educated Europeans immigrating to the U.S. in the mid-19th century were aware of these institutions. By then, the U.S. had many unaffiliated commercial schools, and the idea of education for business was widespread. In 1853, Illinois businessmen formed an Industrial League to establish “industrial education for farmers and mechanics.” In New York, a People’s University for farming was set up in 1853. Pennsylvania chartered a Farmer’s High School in 1854 that evolved into Penn State University. A similar school chartered in Massachusetts in 1856 evolved into today’s UMass Amherst.

After the Civil War, as the nation’s concerns shifted from agriculture toward industry and trade, the Industrial League attracted more attention. Its members helped pass the 1862 Morrill Land-Grant Act, which led to the establishment of 76 public state universities. Several private universities benefited, including Cornell. In 1865, Ezra Cornell offered to match New York’s land grant and fund a separate department of trade and commerce, which would have been one of the first U.S. collegiate business schools.

The Wharton Story
The founding of the Wharton School of Finance and Economics in 1881 was another major event in America’s management education history. It was named for Joseph Wharton, who had become the driving force of the Industrial League after the Civil War. Wharton, a powerful monopolist and passionate protectionist, had studied the education methods of the German Cameralist schools. He liked the way Cameralism applied reason and science to the field of business; he also approved of the way the Cameralists encouraged legislators to maintain strong connections with the business class.

Wharton proposed founding a business school that borrowed Cameralist methods—but was insulated from the university's administration and the mainstream free-trade thinking that reflected the repeal of the U.K.'s Corn Laws in 1846. His self-standing unit would be based on the writings of Henry C. Carey, father of the American school of economics. Carey was Lincoln's advisor on international trade and promoted protectionism against European manufacturers.

Wharton also persuaded Robert Thompson to write a textbook based on Carey's views. Thompson was Penn's—and the nation's—first professor of social science. The Industrial League sponsored his book and dispatched copies to the nation's libraries. Thompson became the first dean of the Wharton School; its hallmarks were college-level instruction, but also political and administrative separation from the university and its economists. It embraced a specific managerial culture.

But Wharton's political agenda meant the school's curriculum was overly narrow, and it fumbled. Most of those who enrolled were taking business classes as electives; only five students graduated by 1884. The university assimilated the school and hired a new dean, Albert Bolles, a lawyer and a writer on economics. Bolles observed the sharp upgrade in universities that adopted the methods and style of the German research universities, such as the newly founded Johns Hopkins. He hired Edmund James, recently returned from Germany with a PhD in Cameralist economics, to be the Wharton School's professor of public administration and finance.

Based on his own schooling in Germany, James suggested reorganizing Wharton's haphazard two-year program of electives into a four-year undergraduate degree covering banking, transportation, insurance, merchandising, business law, business practice, commerce, economic history, philosophy, accounting, and journalism. In this way, the curriculum was balanced between public and private sectors. James also received funding from the American Bankers Association to visit Europe and research its schools more carefully. In 1893 he presented a 223-page report reviewing commercial education in Austria, Belgium, England, France, Germany, and Italy. The report was circulated to the ABA's 2,000 members, recommending commercial education be initiated across the country.

Now anyone interested in management education had several models to choose from, plus a century of European experience to draw on. While James and Joseph Wharton had their disagreements, Wharton donated again and James' four-year program went ahead in 1894. The student numbers rose sharply. But James had many enemies and was summarily fired in 1895. He went on to join the University of Chicago and found its business school in 1898. In the meantime, other business schools were emerging across the U.S., including those at UCLA, NYU, Dartmouth, and Columbia, propelled by local donations.

Harvard and Other New Models

In 1908, Harvard University opened its two-year Graduate School of Business Administration. Harvard's president, William Eliot, was under pressure from East Coast bankers and railroad magnates to provide young men educated in business. Eliot had been corresponding with James and followed Bolles' lead by seeking young scholars with German PhDs.

HBS's first dean was Edwin Gay, who had taken his PhD in Berlin. There he had learned to immerse himself in historical detail, uncovering generalizations and linkages through analysis and seminar discussion. Gay referred to this way of prioritizing real-world problems over academic theorizing as "the problem method." It seemed natural to introduce something similar at HBS, especially since Harvard Law already used the case method.

Gay's curriculum, based on his Cameralist studies, was descriptive, covering transportation, insurance, lumbering, printing, and public utilities, along with functional courses in accounting, marketing, and industrial management. In 1911, Gay established the HBS Bureau of Business Research with the help of Art Shaw, the publisher of the journal *System,* which would become *Businessweek.* The Bureau institutionalized the supply of cases prepared by students and faculty.

Gay and Shaw were enthusiastic about Scientific Management in management education. The notion of applying scientific methods to social and economic matters had been gaining traction in Europe, Russia, and the U.K. for a century. In 1820, standardization and mass production had been introduced at the Watertown Arsenal in Massachusetts by officers trained at West Point. As early as 1856, Freeman Hunt, the New York publisher of the influential *Merchant's Magazine,* asked, "Where was the science of business to match that being developed for every other profession?"

Shaw began lecturing at HBS and pressed for a systematic approach to case materials. In 1913, he introduced the second-year business policy course. It had a transformative impact on the student body. Previously, the majority of HBS students left after one year to take management jobs. Shaw's initiative began to switch the curriculum from descriptive to functional or "tool" courses, emphasizing academic methods and research. The change foreshadowed the tension in our industry that we now dub rigor versus relevance.

Tensions also rose during the "war of method" within economics, one side favoring theoretical rigor, the other a more fact-driven historical approach. While there were some similarities among programs as faculty moved between institutions and shared textbooks, there was no general understanding of which courses belonged in the curriculum and which didn't, and there was little agreement about what an MBA should cover. Nonetheless, management education expanded rapidly at every level—college, commercial school, and high school.

Global and Human Influences

As management education was becoming established, the U.S. was entering the global economy, as evidenced by the Spanish-American War in 1898. The U.S. was also observing other international events, such as Germany's growing military and industrial progress, which concerned members of Congress. Considering that Germany was endowed with fewer natural resources than the U.S., Congressmen suspected its growth had been driven by superior industrial education. This was one factor that led the American Bankers Association to fund research into European methods of education.

World War I caused a drastic fall in HBS enrollment, but the U.S. management education industry continued to expand through the Depression. At this point, impelled by social changes and the rise of industrial unions, labor relations came into the curriculum. Frederick Taylor, a mechanical engineer and accounting consultant who devoted his career to making industry more efficient, started the Scientific Management movement, which he considered a move toward better labor relations. However, he was demonized as the source of the labor problem by both unions and politicians.

At HBS, banker-lawyer Wallace Donham replaced Gay as dean in 1919. Donham's interest in quantitative methods was balanced by a concern with "human relations" derived from his law practice. In 1925, Donham leveraged Harvard professor Hugo Münsterberg's work on industrial psychology and hired Elton Mayo, who was researching post-traumatic stress disorder in WWI veterans. Mayo helped shape the Hawthorne studies that observed workers at one of the Western Electric Company's Illinois plants, which produced new insights into human behavior in the workplace. The program was arguably the most influential empirical research in management education's history. It helped cement the place of human relations and organizational behavior in the business school curriculum—but it didn't produce the long-sought science of the workplace, which we have yet to definitively create.

Donham continued to influence management education for decades, drawing particular attention to business's social responsibilities. But by the time he resigned the deanship in 1942, HBS had militarized and become a school for operations analysts and statisticians—such as Robert McNamara, the school's highest-paid young professor. Business leaders everywhere became eager to apply these quantitative methods to peacetime management problems.

While Harvard continued its focus on general management and the case study method, Wharton moved closer to management as science and adopted the research-intensive emphasis that marks it today. In 1958, Nobel winner Lawrence Klein joined Wharton's department of economics, bringing mathematical modeling to a new level. For decades the school had successfully bridged the public and private sectors, an inheritance from James' interest in the social sciences. But as the school's culture shifted toward mathematics and rigor, the tensions became unmanageable. It ultimately split off the public sector faculty and became much more focused on rigor, like many other schools.

A Science of Management

After WWII, U.S. management education continued to prosper. That was especially true after 1944, when the GI Bill kicked in, giving returning troops an educational option that changed America forever. After 1947, the Marshall Plan ensured that America's management culture, including its business education model, was exported to Europe as America provided funds and knowledge to rebuild the continent.

As the management education industry expanded globally, it became increasingly fragmented. Schools began to offer one-year MBAs, two-year MBAs, sandwich courses, specialist master's degrees, undergraduate degrees, executive programs, and corporate programs. There was no coherent body of theory to ground management education, as there is in physics or psychology, nor was there an institutional body controlling managerial practice the way the American Medical Association controls doctors' practice.

AACSB had been established in 1916, but its initial objectives were to help its elite members create a shared curriculum, to encourage faculty training, and to protect its members' reputations. AACSB worked with the Ford Foundation in 1955 to develop new curriculum and faculty standards, and again in 1957 to support an Intercollegiate Case Clearing House.

The Ford and Carnegie Foundations also funded thorough reports on the state of management education in the U.S. These were published in 1959. Both were highly critical and demanded reforms to increase the intellectual caliber of the research as well as the quantity and quality of faculty. Reflecting the Cold War era's geopolitical anxieties, their implicit agenda was to use conceptual rigor and rational thinking as buttresses against communist ideologies. The result was a big push of foundation funds to five "centers of excellence": Harvard, Columbia, Chicago, Stanford, and Carnegie Tech's newly founded school, the Graduate School of Industrial Administration (GSIA). Harvard received the lion's share of the money, though GSIA's program proved more influential, promoting a new and even more rigorous management science.

U.S. funding also helped establish new European schools, such as INSEAD, which was aided by HBS. The U.K. accepted American advice that it "needed an HBS," and the London Business School and Manchester Business School were founded. Meanwhile, established European schools like HEC and ESSEC were transformed. The majority began to hire faculty with demonstrated research skills, displacing seasoned managers with practical experience.

Growing Stratification

Another factor drove management education's evolution after 1959: the concern that its relentless expansion would attract low-quality providers who would drag the entire industry into disrepute. At this point, AACSB had yet to reach abroad and its standardization efforts worked only on its own members, a minority of U.S. schools, let alone the world's. The global population of business schools was expanding without any control. At the same time, management education materials became increasingly commoditized. Business management was presumed to be generic; a business was a business. There was little to restrain lower-tier schools, or those overseas, from using texts from top-tier U.S. schools.

Even so, the industry became increasingly stratified. The looseness of the curriculum ensured that graduates from the most highly reputable schools would stand out during the hiring process. Stratification accelerated as accreditation became a publicly visible differentiator. Accrediting agencies multiplied. In addition, social changes sundered the "old boy network," the hiring loops wherein managers would prefer students from the schools they had attended. As schools selected students on merit, the most profitable firms sought the best students from the schools with the best reputations. This meant the ablest students began to choose schools less for their curriculum or teaching and more for the consequences their certification would have on their careers. The trend was exacerbated when *U.S. News & World Report* debuted its business school rankings in 1987.

As business schools focused more on managing reputation and student placement, the upper-tier schools became increasingly entrenched in a winner-take-all market. The 1959 Foundation reports also helped conflate reputation with rigorous research and A-journal publication. Schools began to hire faculty for their academic publications rather than their classroom skills. And even though most business schools came into existence through private donations from local businesspeople whose interests would influence the school's strategy, faculty took advantage of the curriculum's looseness to shape their teaching to their own research and career interests. Consequently, more schools specialized and fewer taught general management. AACSB changed its role to helping schools do the best job they could, pursuing whatever mission they choose.

Given the tilt toward specialization, deans delegated academic oversight to department heads and focused on the fundraising necessary to erect glittering temples to house their programs. The relentless demand pushed fees upward and transformed many business schools into their universities' cash cows. Management education became a business rather than a discipline.

And Today?

Between 1970 and 2008, the industry continued its global expansion, often leveraged through alliances with overseas universities. The appetite for business graduates seemed limitless. This was particularly true among the financial services firms that had expanded rapidly in the boom years after WWII as disposable incomes rose and new savings and investment behaviors proliferated. The demand for consultants likewise exploded as corporations went global and needed managers who could handle the new financing and tax complexities.

It's likely the demand for management education also was driven by the disappearance of the 19th-century path to senior management—learning by doing from the bottom up. There was no longer time for even the sharpest individuals to work their way through the layers of massive firms. Increasingly, business school graduates were parachuting into firms' upper levels, or consulting there, with status and salaries to match, while blissfully ignorant of the value-creation processes underpinning the companies they were managing.

As the management education industry grew, it became impossible to know how many business schools there were—perhaps more than 13,000, in more than 75 countries, with over 3,000 schools in India alone—or what they were teaching. As a response to the disorder, top-tier schools in the U.S. and Europe doubled down on "science of management" as their chosen way to maintain disciplinary coherence. The impact of A-journals rose as well. Most business programs abandoned the industry's early soft disciplines like economic and business history, philosophy, political economy, and industry and public sector studies. Likewise, doctoral programs and academic journals began to focus on research best suited to hard quantitative methods, readily examinable, publishable, and teachable—albeit less relevant to managerial practice.

There was an inevitable backlash. For instance, in his 1977-1978 report to Harvard's Board of Overseers, university president Derek Bok admonished HBS for paying inadequate attention to business ethics, firms' relations with the public sector, and their changing social responsibilities. He also cautioned against excessive enthusiasm for quantitative methods and pointed out that business decisions demanded judgment as well as analysis. Other criticisms of business schools surfaced, feeding on the evident tension between the theories being taught and business's practical aims and moral responsibilities.

The administrations of Ronald Reagan and Margaret Thatcher embraced the politics of privatization and deregulation. Economic theorizing followed, favoring neoliberal economists who scoffed at the need for managerial judgment. Just as government was being redefined as "the problem," managers often were viewed as standing in the way of market forces. Few observers noted that the majority of firms—and the ones generating the most jobs—were small-to-medium enterprises. Big business management was not typical of most firms.

In the most recent period, many management educators have largely given up on theorizing economic value creation and have retreated to entrepreneurship and leadership, topics seemingly beyond the reach of neoliberal economists. Student demand for these courses skyrocketed after economists proved unable to predict or explain the 2008 financial upheavals. Yet neither entrepreneurship nor leadership is a discipline that stands on viable theory or an empirically verified core.

This sets up more vicious tensions: On the one side is teaching that is practice-oriented and light on theory, but that appeals to the student body; on the other side is academic teaching that is as rigorous as the Foundation Reports called for, but that implicitly denies the relevance of managers. As neither discourse offers much insight to practicing managers, the rigor-relevance gap widens.

What's Next

As management education enters the 21st century, many questions clutter our horizon. Obviously the sheer enormity and global sweep of our industry demands better understanding of its impacts, costs, and benefits. The opportunity costs are enormous if we don't. We still have pressing questions to answer. What are business schools, and what should they be? What are the social, business, or personal purposes of management education? And how might management education evolve next to meet society's present needs?

J.-C. Spender lives in New York and is Research Professor at Kozminski University in Warsaw, Poland. His most recent book is Business Strategy: Managing Uncertainty, Opportunity and Enterprise*. This is a companion piece to the article "The Past Is Present," which appeared in the March/April issue of* BizEd *and can be found at www.BizEdmagazine.com/2016/2/features/Brief-History-of-Management-Education.*

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