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***From Higher Aims to Hired Hands: The Social Transformation of American Business Schools and the Unfulfilled Promise of Management As a Profession***, by Rakesh Khurana. Princeton, NJ: Princeton University Press, 2007.

#### From the Book Review Editor

This book uses detailed historical data to develop a nuanced understanding, richly informed by neoinstitutional theory, of the birth, growth,

and possible future of the university-based business school. I have invited two leading scholars to offer their critical reviews of this remarkable book, which is sure to generate much interest and vital debate within the Academy.

**Reviewed by David Knights, Keele University, Staffordshire, United Kingdom, and Gothenburg University, Sweden.**

As the subtitle makes clear, this is a book that traces the history of the American business school and its connections with management through what the author describes as three phases. The first "professionalization" phase coincided with the formation of the earliest business school at Wharton, University of Pennsylvania, in 1881. It is described as a mission to generate a set of professional norms and values to ensure that managers pursued their work with social and publicly responsible purpose. The second "managerialist" phase began just after the U.S. intervention in World War II in 1941 and resulted in the displacement of high professional ideals with professional knowledge and expertise. At this time the Ford Foundation had produced a review of the American business school and concluded that it had to reform its practices so that it could compete scientifically and be capable of producing professional knowledge, in order to gain status and respect both from business and from other academic disciplines within the university. While this had the effect of severely constraining the professionalization project, it was not seriously undermined or subverted until the most recent third phase of "marketization," where the only logic for the business school is that of the market and the competitive pursuit of financial resources.

In order to prepare the ground for this historical analysis of the business school, Khurana examines the literature that accounts for the rise and development of management itself. He begins by challenging one of the classics in this literature—Alfred Chandler's (1977) *The Visible Hand*—on the basis that it relies exclusively on the economic argument that management and organization emerged and thrived because they were more efficient than the alternatives. Drawing on institutional theory (e.g., Powell & DiMaggio, 1983), he suggests that corporate institutions are more driven by normative conven-

tions than the pursuit of rational or economic objectives such as efficiency. Also, whatever the objectives of an organization, there are always unintended or unanticipated consequences, practices frequently diverge or become decoupled from organizational goals, and there is a tendency for isomorphism where organizations begin to resemble one another in form and structure despite different origins and pursuits. This approach to studying the evolution of management and corporate institutions concentrates on institutional agents, fields, logics, and legitimacy.

Rather than attributing the rise of the business school simply to its potential role in serving the economic interests of corporate industry, Khurana traces its growth and development to the concerns that corporate America had with legitimizing management as a respectable occupation capable of acting socially and publicly responsibly. In order to do this, management education was necessary as a means to professionalize management and to instill in potential managers certain ideals and social commitments. The professionalization project was supported both by academics who defined their business schools as professional schools and by business practitioners who sought to secure status, respect, and legitimacy by means of association with the institutions of science, the professions, and the university—all of which were taken-for-granted, foundational structures of society. However, the professionalization project not only suffered an uneven development but was eventually disrupted by business school reforms initiated by the philanthropic funding foundations, in particular the Ford Foundation. Finally, it was wholly subverted by the return to the market promoted by neoliberal agency theorists within economics and finance in the universities. The professional business schools had not been able to gain the respect of academic colleagues in other schools partly because they were still seen to be contaminated by their association with the unseemly pursuit of profit and, perhaps more important, they had not developed a sufficiently robust research profile. This was because of the greater financial benefits to be derived from teaching and consultancy.

It is Khurana's thesis that business schools were vulnerable to outside interference, particularly those providing much of the funding—the

educational foundations and eventually the federal government—largely because of the comparative failure of the professional project. In a concern to produce professional knowledge rather than professional ideals, the reforms enforced by the funding foundations pushed the business school in the direction of being more academic, research oriented, and discipline based in the 1950s and, in so doing, shifted the center of gravity of staff away from business practice and from the practitioners they were educating. As government rather than private foundations increasingly funded the universities, it imposed a wide range of audit and accountability principles that, ironically, made business school academics even more distant from the world of business practice. This was because the only way to measure the productivity of academics was through their research and publications output and their student numbers—the latter being strongly influenced by a school's position in competitive league tables, which are themselves based, among other things, on research and publications output. Furthermore, in competing for students, business schools began to invest enormous resources not for the purpose of improving their curricula and long-term development but simply to manipulate their position in the rankings.

Insofar as a link between theory and practice was sustained, it took the form of further reinforcing the market model. Here it was argued that the sole objective of management was to enhance shareholder value, so the most important strategy for a corporation was to build stock option incentives into management packages to ensure as perfect alignment as possible between the interests of shareholders and those of management. Agency theorists (e.g., Jensen & Meckling, 1976) subscribe to the market efficiency hypothesis wherein capital is seen as continually intervening to weed out incompetent managers through hostile takeovers. Here the inefficient manager on the inside is simply replaced as external capital takes control. The marketization of the business school coincides with the phase of investor capital in business practice, and this is reflected in, but also heavily legitimized and reinforced by, agency theory and the courses in finance taught in business schools. It is a pity that the book was completed before the credit crisis that could be seen partially to be one of the outcomes of an unadulter-

ated faith in markets and that presently threatens to spoil the party of economic prosperity that neoliberals claim to have facilitated. This is just another example of the unintended consequences that blind faith in one model fails to anticipate.

This is an important book in offering a scholarly and rigorously researched history and development of the American business school. However, there are some weaknesses, the most serious of which I believe is Khurana's attachment to the idea that business school academics could ever be professional in the same way as, for example, the clergy, doctors, and lawyers. I have no disagreement with the general encouragement of business school academics to teach ethics and public responsibility, rather than to pander simply to what their students think they want, but I cannot see the professionalization project as the route. Moreover, as the book documents, the empirical evidence is against it. Yet, had the author been less ethnocentric in his review of the literature, he might have also found theoretical arguments to question such a project. More than a quarter century ago, a U.K. academic argued that only when an occupation can exercise power in such a way as to define the relationship between itself and its clients is it able to claim professional status (Johnson, 1972). The conditions for this to occur are a monopoly of knowledge over which there is some general consensus regarding its status and a professional association that not only sets and polices standards and rules but also, through examinations or licensing, controls entry to the occupation. The business school can claim none of these conditions. Increasingly, even the traditional professions like accountancy, medicine, and the law are seeing their power to define relationships being eroded by intermediaries—corporations or the state—who broker between the occupation and its clients, so what chance is there for business school academics?

Given his focus on the American business school, Khurana's use of exclusively U.S. literature could be excused, except that his thesis extends to the rise of management as an occupation, and this *cannot* be seen as exclusively American. There is no reference to Sydney Pollard's (1965) classic book on the emergence of management in the Industrial Revolution in Britain, which described management as evolving out of the engineering profession, whose mem-

bers were increasingly managing work processes as new machines made the early phases of mass production possible. Also important were the mercantile classes, who had been managing at a distance under the putting-out system of domestic production and who became the new managers of organizations under the factory system. There is also no historical discussion of the creation of the Joint Stock Corporation and limited liability under the Act of 1854 in Britain, which provided the conditions for the separation of ownership and control and the new managerial class.

Another debate from outside the United States that secures no attention in the book is that concerning the role of the military in relation to management both as a profession and as a focus for education (Hoskin & Macve, 1986; Knights & Morgan, 1991). Strangely enough, Khurana does draw attention to the military, and indeed the military academy at West Point, but only to suggest that there is some coincidence between the recent business school fascinations with the concept of leadership and professional military training. So, for example, leadership in business school courses is treated as a formal body of knowledge, as a set of skills such as interpersonal competence and team building, and as a mode of personal mastery (p. 361). In the U.S. military academy, the unique professional identity of a commissioned Army leader is shaped by what an officer must know and do but, most important, by a deeply held understanding and acceptance of what an officer must be. This account is entirely compatible with but would benefit from the U.K. debate on the close alignment between the military and management practice and education.

While Khurana's use of the term *managerialism* to describe the second phase of the business school—when it was seeking to develop management knowledge that was credible both within the university and in business—is understandable, the author might have drawn attention to another meaning of the term. Again, this is partly due to the ethnocentrism of the author, for in Europe this term has recently been used to mean something rather different, especially among critical social scientists. In the United Kingdom "managerialism" is used pejoratively to describe the practice of believing that everything can be an object for, or of, management. It is most commonly used when public

sector organizations adopt the methods of management from the private sector. It refers to the way that practices carried out by public sector professionals are subjected to the same conditions and constraints (e.g., market competition, payment by results) as those in the private sector. This is not to suggest that one usage prevents the other, but it is important to recognize the different ways in which the term is used.

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**Reviewed by J.-C. Spender, ESADE Business School, Spain, and Lund University, Sweden.**

Read this book. Whether your business school involvement is as a student, researcher, faculty member, or dean, you owe it to yourself. The investment in your education and career will be significantly revalued as you follow Khurana's analysis of how U.S. business schools came to be what they are today. Members of the public could also pay closer attention to what is going on in business schools and understand that they are shaping an increasing proportion of the nation's undergraduate, graduate, and corporate experience. While Khurana does not deal with what some might see as the fundamental question—whether the individual or social return to management education is adequate—he does something quite different and thereby gives our field one of its most important texts since the

1959 Foundation Reports transformed our profession. Modeling his work on Paul Starr's (1982) *The Social Transformation of American Medicine*, Khurana uses historical data to "develop an argument about the development of an institution" (p. 18). He surfaces much of what we take for granted and, querying the dead hand of the past on our shoulder, helps open up questions we have great difficulty in framing, such as "Can management be taught and, if yes, why in universities, and without taking up an explicit ethical position?"

Khurana's analysis begins toward the end of the nineteenth century, with the 1881 founding of Wharton's school, the first U.S. "university-based" business school. By 1924 some 400 U.S. colleges and universities were offering business degrees. Driving this was the rapid expansion of industrial activity that tipped the U.S. economy from agriculture, lumber, and mining into more organizationally complex manufacturing, with its resulting appetite for more managers. Khurana supplements this obvious explanation for the success of the university-based schools with an avowedly "institutional" analysis and points to four supporting factors that form a ring of explanatory reasoning around the basic phenomenon: (1) the growth of "organizational society"; (2) the rising status of those whose function it was to manage these organizations; (3) the rapid expansion of U.S. university education; and (4) the intervention of individuals like Wharton and Tuck, along with other like-minded philanthropic foundations.

This kind of analysis would be interesting enough on its own, especially in illuminating the continuing competitive plays between for-profit and university schools, but Khurana's story is further elaborated by his analysis of the particular societal and institutional situation that these four factors are manifestations of. Between 1870 and 1920, U.S. society was being transformed in multiple ways, and the university-based business schools were one of a number of historically contingent mechanisms—one of special interest to us but not necessarily major for mainstream historians of that time. So Khurana narrows his focus, avoiding overblown claims that business schools (Harvard Business School, in particular) were driving U.S. business upward or downward (Ewing, 1990; Hayes & Abernathy, 1980).

The nub of Khurana's analysis is less an explicit theory of education-based social or economic progress, and the universities' part in this, than the concept of professionalization itself. The basic idea is familiar: a profession comprises a group of people whose everyday practice is grounded in a carefully evaluated body of practical knowledge that requires substantial training. Access to this practice is controlled by examination, licensing, or other means that enable the profession's members to control incomers and evaluate their grasp of the body of legitimated knowledge. Most significantly, Khurana argues that a profession is also an institution in that it attaches meanings to its practices beyond their mere instrumental consequences, teeth pulled, accounts prepared, cases argued, and so forth. There are standards or codes of practice, controls, and sanctions (such as denial of the individual's right to practice), the whole infused with a sense of duty and ethos directed, perhaps, toward individual clients, the public good, or an authority such as the High Court. These controls are often exercised through a constituted professional body, thus institutionalizing the powers established members have over novices, aspiring members, and the general public, whose regard becomes a sacred trust and transforms the profession into a "calling."

Khurana brings the modernizing U.S. economy's rising demand for managers together with the managers' own developing need to be seen as professionals, on a par with the established preindustrial professions of law, medicine, the Church, and so forth, thus framing business schools as part of a modernist "professionalization project" undertaken by a small coterie of forward-looking business people, scholars, and university presidents in the 1880–1920 period. The intention was that the nation's managers would be trained rather than self-made chancers, institutionally monitored, and conscious of their social place and moral duties, and the public would get to understand and respect what managers were doing for them in their community while hidden in their offices. In this way the considerable turmoil of the period—technological, political, among the labor force, and in the financial markets—would be quelled and a new industrial socioeconomic order would arise. Here Khurana links professionalization and institutionalization to the higher aim of a new ethically coherent social order.

The professionalization project implied convergent moves: (1) the formulation of a body of managerial knowledge and (2) its legitimation against the standards newly institutionalized into the U.S. university system. Thus, the "invention" of the university-based school called for the complementary invention of a "science" of management, for, by the end of the nineteenth century, the natural sciences had seized the university high ground, establishing their "scientific" standards of theorizing and experiment as those against which all knowledge claims must be tested. Khurana skirts the obvious risks of claiming management as a science with considerable skill, avoiding the bottomless chasm of the rigor-relevance debate. Instead, he observes the institutionalization of business research, substituting the university's acceptance of the researchability of business in lieu of the body of science that such research was intended to produce.

With this science in place, managers could be valued in terms of their "scientific expertise"—and at this point Khurana's thesis becomes fully visible. History revealed all, he argues, when the application of this new expertise in the service of the organizational efficiency and greater profit of "managerial capitalism" began to "crowd out" the project's higher aims of service to the community—and thus his title, "from higher aims to hired hands" and "unfulfilled promise." The overarching ethical dimension presupposed in the original professionalization project was threatened. Threats became ever more severe after World War II, given the respect with which science and quantitative analysis were then held. He reveals the aggressiveness with which Lee Bach, founding dean of the Carnegie Institute of Technology's business school, and Donald David, dean of Harvard Business School, deployed postwar scientism to convince the Ford and Carnegie Foundations first to analyze the state of U.S. management education and then to hugely support its final transformation into a "science-based" activity. It is impossible to overstate the importance of this part of the analysis, for its impact ricochets down to today's syllabi, journals, and hiring and tenure processes.

As if this defilement were not bad enough, Khurana goes on to consider the subsequent shift from "managerial capitalism" to "investor capitalism," a result, he argues, of the revolution in microeconomics that brought forth agency theory and delegitimized managerial authority. Now the

remaining vestiges of the project's originating ethos were trashed as management educators embraced the market as the ultimate arbiter of their own quality—the rankings, the recruiters' practices, the students' choices, and so forth—goosed up by faculty pay scales and consulting opportunities that left all but the medical schools trailing jealously behind as the business schools' massive endowments were transformed into glittering temples of commerce.

Many readers will be surprised to discover who Khurana, as the Agatha Christie behind this story, fingers as the villain: the AACSB. His charge is that the association was formed in 1916 by representatives of the sixteen leading U.S. schools to help articulate realistic standards of curriculum and teaching that could realize the more abstract aspects of the professionalization project. But it failed repeatedly to fill the role so obviously filled by comparable institutions in the medical, legal, accounting, engineering, and like professions. Not only did the AACSB fail to establish a standard curriculum or break each school's hold over recruitment and promotion and, thus, over who was able to teach or do research, but it also failed to "discipline" the weaker business schools, preferring expansion post World War II over quality.

Indeed, Khurana argues that the AACSB, representing the "cream" of the U.S. schools, became trapped in silence for fear of devaluing the education purveyed by the far more numerous "unaccredited" schools whose curriculum, by then, was more or less identical with that of the elite. With the passage of the post-World War II GI Bill and the huge number of business school students it generated, AACSB accreditation shifted from management education's own standards, such as they existed, to standards set by the bill itself. Khurana argues that the continuing failure of the AACSB to fulfill its role as management's professional institution lies at the root of business schools' unfulfilled promise. It failed to protect the emerging professional project from special interests, be they of universities greedy for more students and donations, the foundations and their pseudo-scientific vision of what management should become, or the marketplace of journalistic ratings and nonprofessional opinion. This prolonged institutional failure, stretching from almost the beginnings of the project up to the present day, sets the arc of the book. I quote:

In the course of this history, the logic of professionalism that underlay the university-based business school in its formative phase was replaced first by a managerialist logic that emphasized professional knowledge rather than professional ideals, and ultimately by a market logic that, taken to its conclusion, subverts the logic of professionalism altogether (p. 7).

Khurana's research was supported by many assistants (duly acknowledged), exploiting the vast resources of the Harvard Business School and the Baker Library. The resulting rich treatment offers many hostages to fortune, but at least two threaten the integrity of his argument. The first is his team's lack of attention to business education in Europe, especially in Germany, in spite of Harvard's own contributions to the business history literature. Fritz Redlich, the German-born historian whom Arthur Cole brought to Harvard and the Research Center in Entrepreneurial History in 1950, and who moved into Harvard Business School when the Center closed in 1958, wrote extensively about the German Cameralist schools of administration (e.g., Redlich, 1957). This is no trifling oversight, since both Edwin Gay, Harvard Business School's founding dean, and Edmund James, the shaper of Wharton and of the Universities of Chicago and Illinois schools, studied at these German university-based schools and naturally brought that experience to bear when they returned to pioneer the U.S. university-based schools (Spender, 2007). Likewise, Joseph Wharton, who spoke and read both French and German, had visited these schools and was much impressed that they had put administration onto a "scientific basis" (Sass, 1982). Only by grasping this Cameralist tradition, its sense of duty clearly directed toward the German State, can one puzzle out how the "higher" ethos of nineteenth-century professional education became unhinged and in play, open to being deployed toward other "lower" ends.

The second threat to Khurana's analysis is especially surprising given his overtly institutional approach. For some reason he seems to have overlooked the university itself as an institution capable of shaping its business school. If this is admitted, it adds a fifth factor to the ring of four previously mentioned. As the universities at the end of the nineteenth century turned toward science and less religious secular studies, they also began to look outward, including to serving their local communities by providing

business education. Their business schools became important to their own growth, so much so that in sheer volume business now dominates all other university studies. In this pursuit they also abandoned the higher goals that characterized professional activity in the nineteenth century (Marsden, 1994). Thus, in many ways the universities' own shifting institutional interests drove out the early promise that Khurana now dubs "unfulfilled."

At issue in this book is the moral outrage that energizes critics such as Mintzberg, Ghoshal, Grey, Pfeffer, and Locke. Khurana is one of an increasingly influential group of management scholars of Indian background who, drawing from very different cultural roots, find deeply problematic much of what U.S. business scholars have taken for granted. This sense of outrage, superbly moderated, is the driving subtext to Khurana's book, and it must bring anyone who reads it to a new appreciation of managers, their responsibilities, and their education. His scholarship and research are so extensive his analysis cannot be denied—dismissed as mere over-the-top expostulation—as those of the angrier critics can. His are precisely the kind of academically substantial arguments that demand careful attention.

But is this what we need going forward? Do business schools really matter to anyone outside the business of business education? Khurana's justification—that the professionalization of management is crucial to a new global social order—is a stretch, presumed rather than substantiated. I would offer a different but supporting reasoning: that without better managers, there can be no better organizations, and that without better organizations, there can be no better world—for the limits to our ability to organize are the limits to our ability to shape the human condition. While the massive destruction that characterized the twentieth century arose from pitting our ever more efficiently managed organizations against each other, we are beginning to face up to the deeper boundaries of our condition and the need to manage them effectively if we are to ensure our survival. This project calls for a new professional ethos, no question. Whether business schools are to have a hand in creating and delivering it is, of course, for us to decide—and Khurana's work is a superb contribution to this discussion. Read this book.

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### *The Theory of the Growth of the Firm*, by Edith T. Penrose. Oxford: Blackwell, 1959.

Reviewed by Anil Nair, Joseph Trendowski, and William Judge, Old Dominion University, Norfolk, VA.

A review (in the pages of this journal) of a book published nearly fifty years ago may appear unusual—unless the book has become a “classic.”<sup>1</sup> Indeed, many organizational scholars (e.g., Pitelis, 2002) view it as a seminal text for the resource-based view of the firm, arguably one of the dominant theoretical perspectives in strategic management research today.

## CENTRAL CONCEPTS

Chapter 1 of the book lays out its ambitious scope. In the first few pages it becomes clear that Penrose was frustrated by neoclassical economists' focus on price, output, and demand. Penrose was interested in directing the field to pay more attention to “the firm”—the metaphorical “black box.” Thus, the book was a bold challenge to the dominant paradigm in econom-

ics, yet it remains debatable how much of an influence its publication has had on this paradigm (Loasby, 2002).

Interestingly, the book's ideas had a particularly significant influence among scholars in the field of strategic management—a discipline still in an embryonic stage at the time of the book's writing. Although Penrose's book appears to have presaged Chandler's (1962) work, it is notable that neither he nor any of the other early strategy scholars (e.g., Ansoff, 1965; Hofer & Schendel, 1978; Porter, 1980) cited her work. In fact, it was left to David Teece (1982), Birger Wernerfelt (1984), and Mahoney's many papers and presentations to bring Penrose to the strategy audience. Penrose's research questions—“I am not asking what determines whether a particular firm can grow, but rather the very different question: assuming that some firms can grow, what principles will then govern their growth, and how fast and how long can they grow?” (1959: 7)—eventually resonated with strategic management scholars.

Penrose laid out the foundations of the resource-based view in Chapter 2 and examined how inherited resources influence the direction of expansion in Chapter 5. Penrose's definitions of resources, the service(s) they provide, and how they create growth and heterogeneity within an industry are worth revisiting, especially in view of the fact that there remains ambiguity about these constructs (Rugman & Verbeke, 2004). According to Penrose:

Resources . . . include the physical things a firm buys, leases or produces for its own use and the people hired on terms that make them effectively part of the firm. Services on the other hand are the contribution these resources can make to the productive operations of the firm (1959: 67).

Penrose's notion of services appears close to Barney's (1991) conceptualization of capabilities. She notes:

It is never resources themselves that are the “inputs” in the production process, but only the services that the resource can render. . . . exactly the same resource when used for different purposes or in different ways and in combination with different types or amounts of other resources provides a different service or set of services (1959: 25).

Penrose argued that heterogeneity among firms (within an industry) occurs because even firms with similar resource endowments can configure them in unique combinations that yield a

We thank Professor Jay Barney for detailed comments on an earlier version of this manuscript.

<sup>1</sup> A citation count on Google Scholar on February 16, 2008, revealed that Penrose's book had received 5,616 citations for the 1995 edition plus several hundred for the 1959 edition.