CONTEMPORARY AFFAIRS

Getting Down to Business

Reviewed by Nicholas Carr

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 Univ. Press. 531 pp. $35

DURING THE PROSPEROUS years after World War II, the executives who headed America's corporations tended to be anonymous bureaucrats. They saw themselves as the stewards of the organizations they ran, having a mix of commercial and social responsibilities. Then came the economic shocks of the 1970s, when the dominance of American corporations appeared to be crumbling. Under pressure from Wall Street financiers and deal makers, executives began to adopt a single-minded focus on boosting profits in order to "maximize shareholder value."

As late as 1990, the Business Roundtable, an influential group of big-company chief executives and directors, still defined the role of executives as balancing the interests not only of shareholders but also of "customers, suppliers, creditors, the communities where the corporation does business, and society as a whole." By 1997, the Roundtable was singing from a different hymnal. Management's duty was to stockholders. Period. "The notion that the board must somehow balance the interests of other stakeholders fundamentally misconstrues the role of directors."

The rise of what's now called "investor capitalism" had many causes, ranging from the expansion of free trade to the decline of labor unions to the public's growing fascination with the stock market. But as Rakesh Khurana explains in *From Higher Aims to Hired Hands,* his panoramic history of business education in the United States, it was academia that provided the intellectual rationale, and the cover, for management's transformation. In the late 1970s, a small group of business school professors promoted, with much fanfare, the "agency theory" of management. Corporations exist, they argued, to increase the wealth of their shareholders, and the fundamental role of managers is to act as the representatives, or agents, of the shareholders. The best way to align managers' and shareholders' interests is to tie managers' compensation to the company's share price, through, for instance, big grants of stock and stock options.

Agency theory, as it came to be embedded in the operations and compensation policies of businesses, turned outsized greed into a desirable and often glorified personality trait for executives. The extent of an executive's greed was, after all, a manifestation of the extent of his—or, very rarely, her—commitment to boosting share prices. As the pursuit of riches intensified, we saw waves of mergers and layoffs, the arrival of celebrity CEOs such as Jack Welch, and, between 1980 and 2003, a sixfold increase in executive pay. We also saw a surge in corporate scandals, as the monomaniacal pursuit of higher stock prices undermined managerial ethics. Celebrity sometimes ended in a perp walk.

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Though born in business schools, agency theory represented a repudiation of the founding ideals of those schools. The first university-based business schools—Wharton at the University of Pennsylvania, Tuck at Dartmouth, and Harvard's Graduate School of Business Administration—were established around the beginning of the 20th century. As Khurana documents, in fascinating detail, these schools saw it as their mission to upgrade management from an occupation to a profession. Managers were to join doctors and lawyers as the elite university-trained professionals who would apply their specialized knowledge for the benefit of society. In a 1908 address announcing the opening of Harvard's business school, the university's president, Charles W. Eliot, declared that "business in its upper walks has become a highly intellectual calling, requiring knowledge of languages, economics, industrial organization, and commercial law, and wide reading concerning the

resources and habits of the different nations."

Khurana, himself a Harvard Business School professor, bemoans the loss of this idealized view. Today, he writes, the MBA degree is often viewed as "a 'product' that business schools simply sell to consumers." Most business school graduates eschew managerial jobs altogether, opting instead for more lucrative posts at consulting firms, investment banks, hedge funds, and private equity houses. "With little or nothing to be gained in the marketplace from reputations for intellectual rigor or educating students in the social responsibilities of management," he writes, "business school administrators are now challenged primarily to demonstrate that their schools provide access to high-paying jobs."

It's hard not to share Khurana's disappointment. At the same time, his lament echoes the naiveté evinced by the founders of the first business schools. Of the many quotations that pepper Khurana's book, the most salient may be from a speech the social critic John Jay Chapman gave at a 1924 dinner celebrating the recently launched *Harvard Business Review*. "My friends," said Chapman, "the truth is that business is not a profession; and no amount of rhetoric and no expenditure in circulars can make it into a profession. . . . A School of Business means a school where you learn to make money."

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Dead Tree Scrolls

Reviewed by Stephen Bates

ENCYCLOPEDIA OF AMERICAN JOURNALISM.
Edited by Stephen L. Vaughn. Routledge. 636 pp. $195

"Newspapers are still far from dead, but the language of the obituary is creeping in," pronounces the Project for Excellence in Journalism in its 2008 *State of the News Media* report. While the audience has migrated to the Web—the top 10 news sites account for 30 percent of all Web traffic—ad dollars haven't followed. In particular, newspapers have lost lucrative classified ads to Craigslist, Monster.com, and other non-news websites. As a result, stock prices for newspaper companies have dropped more than 40 percent since 2005. Network news divisions and newsmagazines are bleeding too.

Not so long ago, reporters were scrappy, indefatigable crusaders, comforting the afflicted and afflicting the comfortable, indifferent to profit-and-loss statements. The *Encyclopedia of American Journalism* chronicles those glory days, and some inglorious ones too. The book's 405 entries, written mostly by media scholars, range in tone from obsequious to bilious, and in style from newspapers at their sprightliest to academic journals at their ghastliest. The encyclopedia devotes articles to reporters, media outlets, press-related laws, and other aspects of journalism, including the colonial press, music criticism, and, quirkily, patent-medicine queen Lydia Pinkham.

The "language of the obituary," referenced in this year's *State of the News Media*, dates back three centuries. "Jane Treat, granddaughter of Connecticut's deputy governor, opened her Bible one spring Sunday—and became the subject of American journalism's first obituary," writes Nigel Starck, of the University of South Australia. "It was 1704. Sitting outside, reading the scriptures, she was struck 'by a terrible flash of lightning.' *The Boston News-Letter* recorded this event . . . telling readers her death had been instant, that the lightning strike left her body 'much wounded, not torn but burnt,' and that in life she was a model of piety and sobriety. Although death reports had previously appeared in American journalism, the story of Jane Treat qualifies as the earliest obituary because it offers also an appraisal of character."

Like Starck, many contributors enliven their entries with piquant tidbits. Paul Reuter, founder of the Reuters news service, initially received stock prices by carrier pigeon. As a young man, Joseph Pulitzer was convicted of shooting a lobbyist who had called him "a liar and a puppy." Turn-of-the-century muckraker Samuel Hopkins Adams went on to write the story on which Frank Capra based his 1934 Oscar winner, *It Happened One Night*. President Herbert Hoover feared coming across as a self-promoter, so he insisted that reporters