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Wanted: Re-discovering the roots of Business Administration

Prof. Klaus Brockhoff's long, intense career in teaching, research and in the management of University Institutions have enabled him to pen this important reflection on the present-day configuration of studies into Business Economy and this latter's impact upon management capacity. For many years a Professor in the University of Kiel, director of WHU (Otto Beisheim School of Management), one of Germany's leading Institutions, created in cooperation with the business environment, and Vice President of its Board of Trustees, Klaus Brockhoff is in a position to analyse the dialogue taking place with regard to training and research within the business context. Given the present framework of hyperspecialisation, the challenge that he throws down is that of recovering the "basics" in training. This is a proposal which must be heard.

During the past decennia at least three major developments have transformed business administration curricula, disregarding major changes in their contents. This is particularly so for those countries with a strong research tradition in this field outside of the Anglo-American language areas. Here, three of these developments are highlighted.

Firstly, the discipline originally was considered as a unity with minor possibilities of specialization. Today, the specializations have grown so much as to consider them as self-standing fields. Some even think that there is no longer a unified discipline of business administration but rather a set of marginally overlapping special fields. These fields develop difficulties of communication among each other. For instance: Identical terms may not necessarily mean the same in different fields or empirically determined constructs of one name may not be based on the same items. This may be less of a problem if these terms rely on earlier theoretical concepts. It becomes a major problem if different items are chosen simply because of the readily available data. Furthermore, it should be considered that high specialization in teaching programs does not meet the expectations of future top managers, who necessarily deal with complex problems crossing over disciplinary boundaries.

Secondly, the influence of the type of business administration taught at American business schools has grown. This has a number of reasons. One of these is obvious: The number of researchers from a unitary, English-language area is far larger than the respective number from most other language areas. The natural preference of a mother tongue alone has led to a preference of English-language texts. Those, who communicate in English can expect to find more partners for communication, as compared with the number they

would find in their mother tongue's language. This preference reduces the consideration of topical or historical contributions in other languages.

Thirdly, the advent of digitization of scientific journals and books can have a discriminatory effect. Again, this has a number of reasons. Scientists and students prefer digitized materials to non-digitized, particularly elder texts. Traditional methods of extracting knowledge from literature are not always helpful when searching data banks. When libraries no longer stock literature according to a standard classification but by size of books or even at random, it does no longer make sense to skip through books stacked next to a text that was originally searched. Because of the specialization mentioned above it is not always helpful to search by keywords. In addition, many people rely on the search algorithm which they use and accept its result as a complete overview of the literature.

Taken together, these three developments result in a lack of knowledge on the roots of business administration as an overlapping discipline. One might argue that this is not a problem. Only the most recent research results seem to count, and these are mostly based on at least a selection of literature. Thus, one might regress to the roots. This chain of regressions might be imagined to present a complete picture. This is further substantiated when reviewers suggest to eliminate earlier and non-English sources from the list of references.

Counter to this argumentation we present arguments, which are tied to the above-mentioned three elements.

Firstly, in business administration there exist a number of very basic elements of knowledge, which should not

be taught in each specialization but rather in a unified basic program of general business administration. For example, the optimal disposition on the scarcity of resources has led to the principle of equating marginal revenue and marginal costs, which has been generalized to situations of non-linear utility functions, multi-period decisions etc. The same applies to the Pareto optimum. There is no need to teach such principles in each specialization, once general business administration is re-discovered as a basis for specializations. It comes very natural to blend such an approach with a history of ideas in business administration. This is not boring. It is fun to read how the Austrian economist Carl Menger explains in 1871 a utility-maximizing use of the scare resource of ship's biscuits, and then expands the example to a travel where passengers find more than one food item on board.

Secondly, different cultures have contributed to business administration. It is important to recognize these cultural backgrounds because they mirror the contextual or environmental conditions under which a particular solution to problem was developed. Using business administration teachings irrespective of such contextual or environmental differences is less than helpful in another context. Consider the case of strategic decisions at the board of a corporation. From the perspective of a country with no board-level labor co-determination, processes and results may be strongly different from decisions that might emerge in an environment with a co-determined governance structure. In addition, the mutual relationship between theory and its context offers great opportunities to blend the history of ideas with economics history. Then, it will become better understood how cultural or religious ideas serve as constrain to certain economic concepts. An example is provided by the objections to charge interests and their cultural motivation. Knowing these, offers at the same time ideas how to overcome such resistance.

Thirdly, the convenience of relying on electronically available material not only introduces a bias against elder publications. This is getting worse if only one language is considered. In addition, not everything that is available electronically is guaranteed to reflect exactly earlier, original sources. This is not only an issue in political daily life but also in economics. The problem raises a number of facets.

Duplication of labor can result from this: some concept

that was known earlier is re-invented at a later time. Again, we present some examples. German economist Dieter Schneider has shown that the concept of the break-even point was known much earlier under the name of "toter Punkt". Or: About 300 years b. C. an Indian text to explain the proper management of a state to a ruler describes all sorts of opportunistic behavior and their remedies, which is among the core items of the so-called new institutional economics. The text is known as the Arthashastra of Kautilya, and is available in an English translation since the beginning of the 20th century. Or: The value chain as a core concept of Michael Porter's value chain model is described almost identically by Heinrich Nicklisch in the 1920's, although with a different motivation. Pointing at these examples is not meant to say that the later authors committed a deplorable case of plagiarism. They simply did not know the earlier literature. More importantly: Had they used their intellectual resources not for re-invention but for something new, how much further could economics have been developed?

A further problem results from biased use of earlier concepts if these are handed over from one source to the next. In each of these steps, a little element of change can occur and over all steps these elements accumulate to a concept greatly different from the original. This is particularly so when citations are not made literally or put out of context. In a number of cases, this might be the fault of the original author because of his unclear formulations. If the original author cannot be blamed for this, the further a citation is remote from the original source without reassurance of its true meaning the more likely it is that mistakes have crept into it. We demonstrate this by two examples.

Joseph A. Schumpeter originally published his „Theory of Economic Development“ in 1912. In this book, he developed his theory of the dynamic driving actor of modern economics, namely the innovative entrepreneur. More recently, it has become very common to speak of the Schumpeterian Entrepreneur. Seldom is it recognized that Schumpeter spent quite some effort on describing four types of entrepreneurs, who differ with respect to their motivation, their advancement to the top positions, and the financing of their operations. Only one of these is called the “promotor”. Today one might call this person the owner

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or manager of a start-up business. Mostly, only this meaning alone is associated with the term of the Schumpeterian Entrepreneur.

Yet another example is that of the term “shareholder value” and its mis-interpretation, particularly in public debates. Disregarding the fact that its elements were rather well known in classical business administration, the term was coined and published by Alfred Rappaport in a HBR paper 1981 and in a book in 1986. The author was a strong critic of short-term measures of success. When developing his concept he had adopted a long-term perspective, which even reaches beyond typical planning horizons of the business world. Contrary to this, the more recent discussions of the term quote former GE-CEO J. Welch as having called the concept a most stupid idea (which in itself is an example of a quote distorted) and they criticize the term for supporting short-terminism of managerial decisions. Using Google’s “ngrams” one can find an explanation for this. The relative frequency of using the term “shareholder value” increases substantially over time, while the relative frequency of the name of Alfred Rappaport does not pick up as much and remains at a comparatively low level. Thus, the term has emancipated itself from the author since about 1987, and from its original meaning!

The knowledge of the history of ideas can help to avoid such pitfalls. Another potential benefit it has is to uncover fruitful ideas from practitioners and to put them into a theoretical framework. This is quite similar to the use of bionics in the technical sciences. That case is illustrated again by an example. To secure a good result from auctioning off his novel “Hermann and Dorothea” German classical author Johann W. von Goethe proposed to potential publisher what became later known as a second-price auction. When William Vickrey was honored by the Nobel Committee with the price in remembrance of Alfred Nobel nobody seems to have known this.

The history of ideas has even more benefits. In his “History of Economic Analysis,” Joseph A. Schumpeter argued that the study of the history of ideas in economics provides readers with direction and meaning to interpret recent texts, that it offers inspiration for new ideas, and that it helps those who face difficulties to understand more formal approaches to economics to a better understanding

of theories. Business administration professor Dieter Schneider adds to this. In his view, the study of the history of ideas uncovers tacit assumptions of earlier theories, clarifies the use of terms in earlier theories to avoid later misunderstandings, and helps to position business administration in comparison with other disciplines. Finally, he argues that the knowledge of earlier approaches helps to avoid mere fashion cycles of reasoning.

One of these reasons, namely the possibility of the history of ideas to generate fresh, new ideas is frequently put in doubt. Again, we point at an example that proves the contrary. During the last third of the 19th century, a lively debate arose around the issue of governance of corporations, including the question on how to determine executive remuneration. In the German business administration literature of that time it was suggested that if a member of a board had to be attracted from outside the corporation - such that one was not as much informed about his motivations and behaviors as if an insider had been selected - it would be wise to ask this person for a deposit. This might even be invested in stocks of the corporation in question. Should the person not meet the agreed upon KPI’s and thus have to leave the company, the deposit or what was left from it could be withheld. This is in contrast to many recent regulations. Why is this so? Is the original idea unknown? Is the market power of management so much stronger than in earlier years? Are there institutional arrangements, which impede the classical solution to the problem?

Until now, we have taken an academic insider’s point of view. Do practitioners appreciate the value of the history of ideas? Again, we only argue by example. The CEO and founder of the pricing consulting firm of Simon, Kucher & Partners says: “Only those who understand the past can interpret the present correctly and thus develop a better feeling for the future”.

Let us now summarize our observations. We wanted to find an approach to strengthen the academic study of business administration and to avoid deficits that have crept into many of the programs in the recent past. A building block for this could be the re-introduction of the history of ideas of this discipline. Recent introductions of

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modular structures, in particular together with the introduction of bachelor- and master programs in central European universities, have expelled such courses from the curricula. With this, competent professors to teach these courses have been retired, and younger ones find little incentives to engage in a field that does not offer future employment. The field has degenerated to a hobby of some of the emeritus professors. These are not part of the regular programs in most cases. They can meet at only a few conferences, and compared with the mainline specializations they can publish in only a few specialized journals (for instance: Journal of Management and Organizational History, Journal of Economic History, Journal of Historical Research in Marketing, Accounting History Review).

Those responsible for defining curricula as well as their supervisory bodies should be encouraged to re-introduce history of ideas into the programs. At WHU – Otto Beisheim School of Management such a course was offered as a choice; however, some of the participants suggested to the university's management that it should be made mandatory. Obviously, the students see its utility already.

The reactivation of a journey to the roots of business administration would not be the fulfillment of a nostalgic wish. It could help to avoid some of the defects of present-day university studies in business administration, including a more effective program structure. It has to be admitted, however, that more teaching material would have to be developed. This should not be used as an excuse not to start the development. The more experienced teachers would very probably be more able to engage in this as compared with the novices of the field (and their specialization). Thus, it would be advisable to act now, when there are some elder professors around who have had the privilege and the burden of a more general education than their younger colleagues have.

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