

ADDRESS

History and the Business School

Sanford M. Jacoby

Keynote address at the founding of the Association of Historians in Australian and New Zealand Business Schools held at The University of Sydney, 14 December 2009.

I am very happy and honored to be with you today. Creating this organisation is a wonderful idea. Thank you to Greg Patmore for inviting me.

I was asked me to speak about the role of history in a business school. I want to arrive at that topic via a cruise down a larger river. It's not the Limpopo. Rather it's inelegantly called 'the relationship between history and the social sciences'. There will be a lot of scenery and a few animals breathing hot air. I hope to show that the problems we face as historians in business schools are not unique to business schools or to our own era. One caveat: I come from the United States, where the status of history in business schools is very different than in Australia and New Zealand. Nevertheless I hope I can say something useful.

Our headwaters are in the balmy reaches of Prussia, a place called Königsberg, home to the Enlightenment philosopher, Immanuel Kant. Kant worked on a number of topics relevant to social science methodology, including the question of whether the methods of natural science are sufficient to understand human beings. Kant's answer was no. Humans are part of nature, but we also are *apart* from it. We are physical creatures but we also have other characteristics. You might call them self-consciousness, freedom, creativity, or subjectivity. We are capable of interpretive, symbolic, and reflective modes of being. To study human beings and their creations – which is what social science is about – one needs distinctive methods for each of our modes, or so Kant thought.

In the nineteenth century, it was German thinkers, especially, who elaborated the implications of Kantian dualism. The effort gave rise to Hegel's idealism, which critiqued the Enlightenment tendency to reduce experience to a rationalistic and material base. The notion was echoed by the Romantics, who emphasised diversity over uniformity, the idiosyncrasies rather than only the similarities of individuals, groups, and societies. These ideas powerfully affected early German social science – the historical economists – who were skeptical that one could rely on trans-historical laws to make sense of human endeavors. For example, Adam Smith's claims on behalf of free trade were held to be inapplicable to developing economies like Germany's, causing the German economists to drub classical economics as an ideology they called 'Smithianismus'. There was an enthusiasm for detailed empirical study of human history in all of its concreteness. With this came a favoring of facts over theory. It was Goethe, the great romantic, who said, 'All theory is grey but green is the golden tree of life'.

Leopold von Ranke, who some consider the founder of modern historiography, shared these sentiments. For Ranke, writing in the mid-nineteenth century, history was the preeminent empirical discipline. The job of the historian was to intuit and

recreate the past '*wie es eigentlich gewesen war*' – how it actually had been. Ranke did not want theoretical structures to interfere with historical research, although he saw a scientific logic in the accretion of facts.

I want to spend a moment on how the Kantian antinomies played out in the famous *Methodenstreit* (dispute over methodology) that occurred in the 1880s between the German Historical School, as represented by Gustav Schmoller, and the burgeoning neoclassical movement, as represented by the Austrian economist Carl Menger. Menger argued that economics was a science capable of discovering laws from which the solution to any disciplinary problem could be deduced. Schmoller took a different position: socio-economic phenomena were created by individuals, who, while rational to some extent, also are imbued with moral and cultural values that vary across time and space. Hence, said Schmoller, economic outcomes could not be deduced from a universal, ahistorical model. Instead, one had to study the facts before trying to theorise. Schmoller said, 'we need more exact observation of facts, statistics, and institutions so as to build more accurate theories'.

Here Menger hit back hard. He said Schmoller did not understand the purpose of general theory. At best, said Menger, Schmoller's historical inductivism would lead to 'realistic' theories of time-and-place specific institutions. But these time-and-place perturbations were the very factors that neoclassical economics abstracted from in developing general theory. In his famous phrasing of the synchronic perspective, Menger said, 'history has the task of making us understand all sides of certain phenomena but exact theories have the task of making us understand only certain sides of all phenomena'.

Around the same time, a group of neo-Kantian philosophers sought to more rigorously frame the terms of debate. They included Windelband, Rickert, and Dilthey in the late nineteenth century and, later on, anti-positivists such as Cassirer and members of the Frankfurt School. They made a key distinction between nomothetic (law-giving) and idiographic (individual or unique) methods. The nomothetic is grounded in the belief that phenomena are governed by universal laws that are trans-historical and trans-cultural. The idiographic, however, focuses on the concrete and particular. It identifies unique and subjective characteristics of phenomena. The neo-Kantians thought that every scientific field would differ in the balance it struck between these methods. History was relatively idiographic; neoclassical economics took much more of a nomothetic approach.

During the first half of the twentieth century, the social sciences slowly differentiated into disciplines. (Harvard did not have freestanding sociology and psychology departments until the mid-1930s.) In each discipline there were attempts to synthesise the nomothetic and idiographic – that is, to combine general theory with interpretive and historical methods – rather than to treat them as contending alternatives.

Within economics, the best-known attempts at synthesis were those of the institutionalists, a diverse group including Thorsten Veblen, John Commons, and Wesley Mitchell in the United States. In Britain their counterparts included the Webbs, William Cunningham, Alfred Marshall, and a mostly forgotten group of historical economists. Those of us in industrial relations well know the institutionalists because many of them focused their research on the 'labor question' of their era: labor regulation and labor unions.

The institutionalists relied partly on historical evidence – including labor history – to relativise markets and to demonstrate the contingent, mutable, and agentic aspects of economic society. Not only were they historicists, they were empiricists, who gathered facts and utilised statistical methods to interpret them. Wesley Mitchell, founder of the National Bureau of Economic Research, believed that economics proceeded through a dialectical passing back and forth between fact and theory, between induction and deduction. There was an anti-theoretical bent within institutionalism, however. Efforts to create general theory, like Commons' transaction economics, did not have much impact on his fellow institutionalists. Finally, as befits their name, these social scientists studied institutions, which gave structure to markets and without which markets could not function. Institutions were conceived as entities whose origins and evolution mattered – the diachronic perspective.

Another effort at synthesis was that of sociologist Max Weber, who began his career as an historical economist. Weber thought that economics was different from nomothetic Newtonian physics, which the neoclassicals revered and emulated because it dealt with cultural beings who seek to impart meaning to their actions. For Weber this required interpretive methods – what he called *Verstehen* – for understanding individual action from a person's own point of view. *Verstehen* had a profound influence on sociology, leading to interpretive approaches such as Simmel's symbolic interactionism.

Yet Weber agreed with Menger that the historical economists failed to appreciate the distinction between realistic theory generated by case studies and exact or covering-law theory that can predict because it abstracts from the details of those case studies.

Weber tried to combine interpretive and nomothetic methods in his concept of the ideal type, which he applied to a variety of phenomena, including capitalism. In pre-capitalist societies, he said, individuals made decisions based on normative or substantive rationality that limited the influence of calculative rationality. So long as calculative rationality is not the governing decision rule, one cannot have pure capitalism, he said. And without pure capitalism, neoclassical theory will not yield sensible predictions. Weber famously buttressed his argument with historical research on the cultural and historical developments that cleared the way for calculative rationality: the Protestant ethic, disenchantment and the loss of charisma, efficiency, and bureaucracy.

As an aside, it's interesting to see here a point of contact between Weber and the new behavioral economics, which also considers deviations from calculative rationality. But that's a tributary we won't have time to explore. We also don't have time to sail the anthropology or linguistics rivers, where we could have seen how cultural anthropologists like Franz Boas and diachronic linguists like August Schleicher tried in their own ways to effect syntheses within their disciplines.

But let's take a stop with history, and turn to more recent developments. Until the 1960s, the discipline of history remained a Rankean endeavor, generally disinterested in theory and mostly untouched by philosophical debates in the social sciences. Yet history did – and does – have a distinctive methodology. Its foundational elements include reliance on primary sources, accurate chronology, and the narrative presentation of facts. In history doctoral programs, first-year students drill down deeply into the

specifics of their time/place specialty and learn the craft of narrative by example. Conversely, a graduate student's first year of study in economics is spent almost entirely on learning the corpus of microeconomic theory. Not a fact to be found.

Nevertheless, recent years have seen a greater openness of history to theory. The big change came in the 1960s and 1970s via the 'social science history' project, symbolised by the creation of the Social Science History Association. This was quantitative history, using statistical methods to analyse numerical data. In labor history, for example, historians began to churn out quantitative studies of geographic and social mobility, strikes, crime, slavery, and standards of living. Across other subfields of history there was a proliferation of statistical modes of analysis, even of hypothesis testing. Inevitably, the quantitative historians had to reckon with theoretical concepts from mainstream social science, while the social scientists who brushed up against them came better to understand what made historians tick. With this came some softening of disciplinary boundaries.

While business history did not quantify so extensively as labor history, it too began to import ideas from the social sciences. Consider the difference between Alfred D. Chandler's 1962 book, *Strategy and Structure*, and the book he published 15 years later, *The Visible Hand*. The former contains theory but it is mid-range theory derived from case studies. *The Visible Hand*, however, written at the peak of the social science history moment, builds its narrative around the trans-historical concept of transaction costs.

Another route by which theory entered history was the linguistic turn, a development of the 1980s and 1990s. Historians became sensitised to – and enthralled with – hermeneutic, post-structural, and semiotic ideas drawn from literary theory, anthropology and linguistics. Here we see history choosing to tilt away from the nomothetic parts of the social sciences. Practitioners of the linguistic turn deconstructed and challenged master narratives that had long been accepted in different fields of history. It targeted positivist claims – including in the physical and natural sciences – that ostensibly scientific research was free of subjective elements. The linguistic turn was a repudiation of statistical history, which today largely has become the domain of a new neoclassical breed of economic historians.

Statistical history – and mainstream social science – rest on a variable-centered approach in which one aggregates individual data points and correlates their central tendencies. The linguistic turn, however, is concerned with individual data points and the interpretation of their meanings. It challenges the objectivity of facts, which, it is said, are not value free, nor do they possess any inherent, objective reality. If this is true, then traditional historiography and mainstream social science are in trouble. No wonder old-fashioned materialists – whether Marxists or more conventional types – were alarmed and threatened by the linguistic turn, including in labor history.

Another recent development of interest is occurring in economics and political science, which are, arguably, the most ahistorical disciplines in the social sciences. For both, there has been an historical turn. As yet it is a fledgling development but it is relevant to those of us teaching history in business schools.

In economics, one manifestation of the historical turn is the new political economy, as in Daron Acemoglu and James Robinson's work on the origins of democracy. Other examples include the legal origins project launched by Andrei Shleifer and efforts to apply path dependence to the study of technological change and other topics.

In political science, the historical turn is known as historical-institutionalism. It too focuses on institutions, which, because they are bounded in time, cannot be made sense of without diachronic concepts such as contingency, path dependence, ruptures, and sequencing. Historical institutionalism is predominantly situated at the national level, asking questions about the linkages between historical forces and national systems of innovation, training, and social welfare, often leading to comparative analyses.

I welcome these new developments but would at the same time argue that parts of what comprise the historical turn are derivative history. We find this problem when there is little or no use of primary sources, minimal familiarity with historical context, and a tendency to draw stylised facts from a favored historical source. Understanding the details and getting them right, which is what historians do, is not high on the agenda of some of those participating in the historical turn. This has led to serious problems, for example, in the legal origins literature. In general, there is a tendency to treat historians as mere handmaidens of evidence.

And now, at long last, the ship has swung into port. What about those blasted business schools? By and large business schools are not easy places for historians to live, even for social science historians like me. Part of the fault is our own. Many of us have holed off and communicated only with like-minded creatures. We don't try to explain how history can enrich what business schools do. Let's face it: we have our work cut out for us. Business schools are not mini social-science units. They draw from the most ahistorical parts of the social sciences and also from engineering. As a marketing colleague once said to me, history is just another name for time series analysis.

The good news, however, is that business schools, at least in the United States, have a long tradition of idiographic thought. It is called the case method. Business schools also are pragmatic and practical places, which means that they are more open than, say, economics departments, to empirical research, mid-range theory, and interdisciplinary exchange. Here and there – including at my own business school at UCLA – the new political economy has made inroads. So has economic sociology, a relatively historical field.

What do we as historians have to offer to our colleagues and students? First, history is a way to think about change. Historians understand that we live in an impermanent world. What others take for granted we see as contingent and time bound. We pay attention to process – how companies and economies move from one point to another. We are attuned to problems of continuity and discontinuity. But it is not only economy and society that are time bound; it is also our ideas about them. Even the ideas discussed in business schools are fitting subjects to historicise. An interesting example is S.M. Amadae's book, *Rationalizing Capitalist Democracy: the Cold War Origins of Rational Choice Liberalism* (University of Chicago Press, 2003). She studied the Cold War origins of rational choice theory and game theory. In a nutshell her argument is that these ideas were not a scientific *deus ex machina*. Rather they appeared as the result of Pentagon-funded research to guide military decisions and to win the ideological skirmishes of the Cold War. Tell that to your colleagues in operations research and decision science.

Third, history is a way to think about causality and agency. Historians understand that variables are not people, and that variable-centered causality is not a substitute

for historical processes. For business students, it's not enough to learn how to manipulate variables. They also have to know how business leaders and competitors reckoned with reality and sought to change it. One can learn this from a business biography as much as from an econometric paper. The trick for historians is to write business biographies that are creative and profound.

Finally, history forces us to reckon with complexity – with numerous and interdependent variables. As historian John Gaddis has said, historians seek parsimony with respect to outcomes but not with respect to causes, whereas social scientists privilege the parsimony of causes because it is the royal road to prediction. Historians are comfortable with big questions, those that are not amenable to the 'normal science' technique of sequentially cutting off slices from the paradigm *du jour*. Many observers of management education – including business leaders – worry that the MBA model has swung too far in the direction of analytic techniques that don't apply well in the real world, or at least to the jobs our students will hold. The students, it is said, fail to get 'the big picture' and cannot escape the conceptual fetters of the present moment. Historians have a lot to offer here. We should be the ones taking the lead on developing cross-disciplinary, big-think courses. Harvard Business School's core course called BGIE (Business, Government, and the International Economy) could only have happened at Harvard because of the relatively large number of business historians on its faculty. But in the United States, Harvard is *sui generis*.

Anyway, I think we've reached the end of our journey. Keep in mind that other boats will be departing for future points along the river. I wish you all the best with your new, sorely-needed organisation.

Sanford M. Jacoby is the Howard Noble Professor of management, public policy, and history at UCLA. He is the author of five books and numerous articles on industrial relations, corporate management, labor markets, and workplace history. His most recent book is The Embedded Corporation: Corporate Governance and Employment Relations in Japan and the United States (2005).

<sanford.jacoby@anderson.ucla.edu>