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Working smarter, not harder: reflections on the management of business schools and the role of business schools in innovation¹

The Lisbon Agenda enjoined Europe to work smarter, not harder—since her international competitive advantage lies in her cultural capital, not in her natural resources or labour power, Europe must deploy her limited resources to maximum effect, to achieve economic growth. The key to European economic growth lies, therefore, in innovation, new product development, and process innovation. This article reflects on what working smarter actually entails, in this setting, through examining the management of business schools and the role of business schools in innovation. Business schools are important for the development of innovation both directly and indirectly, through research and teaching. These reflections are based both on the personal experience of managing two business schools, and on academic research, my own and others', into the management of innovation. As such, it is very much a personal view, not an attempt to provide a consensus overview. Furthermore, while innovation is contingent upon structures, cultures, and attitudes, this article concentrates on structures, reflecting my initial education, first as a historian and then as a sociologist.

Since the 1990s, two trends have dominated contemporary business restructuring in response to increased international competition. The first is the decentralisation of operations, with corporate downsizing and down-scoping, delayering of middle management, the expansion of horizontal as well as vertical communication, an increasing use of project forms of organisation, and outsourcing (see, for example, Pettigrew and Fenton 2000). Large-scale manufacturing production has been carried out through international value chains, with dispersed operations, rather than in concentrated large-scale manufacturing sites (Gereffi and Korzeniewicz 1995). Economic transactions have been increasingly externalised, with external market relations replacing internal organisational relations—in Williamsonian terms, markets have replaced hierarchies (Williamson 1985). Product market fragmentation—and fluid labour markets—have led firms to adopt flexible and differentiated strategies in response. Similarly, the speed and variety

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of technological changes have exerted pressures for the decentralisation of operations, both within and among firms. Finally, competitive pressures to reduce costs through lowering managerial overhead have worked in the same direction. The second trend is the centralisation of financial control, as a means of monitoring production costs and, in universities, as a mode of coping with growing student numbers and increasing size and complexity. Four pressures have led to increased central financial control directly, while increasingly sophisticated financial management systems have enabled this trend. The first pressure is the primary need to control overall costs—decentralised financial controls generate financial seepage. Second, centralisation is a means of managing and controlling financial risk. Third, central control is a mechanism for redistributing resources within the firm—such reallocations may be required for investment in corporate facilities, such as information technology (IT) systems, or for investment in new product development. Finally, fourth, central control facilitates public accountability in public sector organisations. Reconciling operational decentralisation and financial centralisation leads to a continuing seesaw between organisational centralisation and decentralisation, with constant change resulting in organisational fluidity. As one IT manager commented during a research interview on IT strategy, reorganisations follow reorganisations on an approximately three-year cycle.

Reconciling operational decentralisation and financial centralisation leads to tensions, when considering innovation. Innovation involves individual skill, knowledge, and creativity, and their mobilisation to design and develop new products building upon initial invention, the original conceptualisation of a new product or service. Devolving responsibility to lower levels of the organisation allows employees to use initiative and imagination, to exploit the unexpected. Moreover, new product development is carried out by professional knowledge workers—scientists and technologists, researchers and consultants—who attach high importance to professional autonomy, with commitment to external bodies such as professional accrediting agencies and academic disciplines. Such professional values reinforce structural pressures for decentralisation. At the same time, innovation involves strategic decision making, and the redistribution of resources, which can only be carried out on higher level authority, since it involves reallocating resources from one activity to another. Moreover, professional knowledge workers are expensive, reinforcing senior management preference for central financial control.

Against this background, this article reflects upon issues in the management of business schools, with particular reference to innovation, both in the management of the schools themselves and in their relations with business. This article is concerned with business schools based in universities, rather than with autonomous business schools such as the Institute for Management Development (IMD) in Lausanne. Although the discussion is based primarily on British experience, the

conclusions are relevant more widely throughout Europe, since British business schools have been influential in Continental Europe, both in their own right and as a means for transferring US knowledge and experience. Moreover, there have been an increasing number of schools on mainland Europe teaching management programmes in English, often using English concepts and materials. At the time of writing (September–October 2012), the UK’s Association of Business Schools (ABS) counts 117 members, with 249,000 fulltime and 108,000 part-time students. Some—such as Warwick Business School (WBS), Lancaster University Management School (LUMS), and, in London, Sir John Cass Business School—cover the full range of management education, from undergraduate level through to post-experience management development programmes. Others—for example, London Business School (LBS)—specialise in postgraduate and post-experience education. Others still—Ashridge Business School, for example, based in Berkhamsted in Hertfordshire—specialise purely in post-experience work. Postgraduate and post-experience business schools have greater freedom than university business schools, for example in curriculum development, and in financial arrangements. This current discussion draws heavily on my own experience in ‘full service’ university business schools—covering undergraduate education to post-experience programmes at the University of Glasgow Business School and at the Southampton Management School—and at the special case of the University of Oxford, and that of the Central European University Business School (CEU BS) in Hungary. The issues addressed below are relevant to all types of business schools, although the balance of concerns differs.

This article is divided into five sections. Following this introduction, the second section examines the issue of the decentralisation of operations, both regarding relations between business schools and their overall universities and in regard to the internal operations of the business schools. The third section examines financial arrangements. The fourth section discusses the specific role of business schools in innovation. Finally, the concluding fifth section returns to the issue of the significance of business schools for innovation—and for working smarter.

Operational decentralisation

Within universities and their business schools, as within industrial organisations, the issue of centralisation / decentralisation relates to three dimensions. (1) The first dimension is corporate governance, the fundamental form of corporate organisation: ownership, ultimate authority, fundamental objectives, overall corporate strategy, senior management appointments, and the arrangements for allocating senior management responsibilities. (2) The second dimension is the distribution of authority and power, including the responsibility

for the allocation of resources and for the management of operations. (3) The third dimension is the responsibility for decisions on task organisation and operational performance. In Western corporations, corporate governance is a matter for the boards of directors, responsible to shareholders through annual general meetings (AGMs). The allocation of resources and the management of operations is the responsibility of professional management, responsible to boards of directors through senior executive board members. Actual task performance varies with the technology of production, and with the control systems established to monitor performance, often within parameters set by professional autonomy. Whilst clear in theory, the differentiation breaks down in practice. The three dimensions are discussed in turn, in relation to university business schools.

(1) Corporate governance arrangements for business schools are established by the universities to which they belong. They differ amongst the four institutions, University of Glasgow, University of Southampton, University of Oxford, and CEU. At Glasgow, an ancient ‘civic university’, the University Court corresponds to the board of directors, the corporate body with ultimate authority and responsibility for the overall strategic direction of the organisation. At Southampton, a large post-War suburban university, the University Council occupies the same position, with the Council responsible for ‘final decisions on matters of fundamental concern to the institution’ (University of Southampton 2012). Both Glasgow’s Court and Southampton’s Council have majority external representation, in accordance with the advice of the UK higher education funding agencies². Both Court and Council are much larger than boards of UK corporations, with 25 members, compared with 10–12 for corporate boards. At Oxford, there is no equivalent to the corporate board of directors. The highest authority is the Congregation, composed of all the senior members (approximately 4,000) of the University, with the elected University Council as the board of management responsible for developing overall strategy. The large majority of the Council members are internal, with only four external members in a Council of 28. At CEU, the Board of Trustees is the ultimate authority, made up wholly of external members, except for the President / Rector. Below Court, Councils, and, respectively, Board of Trustees, responsibility for academic policy rests with University Senates at Glasgow, Southampton, and CEU—there is no senate at Oxford, academic decisions being made within four large academic divisions, run by committees of faculty members, subject to Council and Congregation. Senates

² There are four higher education funding agencies, in the UK: the Department for Employment and Learning, Northern Ireland (DELNI); the Higher Education Funding Council for England (HEFCE); the Higher Education Funding Council for Wales (HEFCW); and the Scottish Further and Higher Education Funding Council (SFC).

are responsible directly for the academic work of the institutions, determining procedures for student admission, for performance evaluation, for discipline, and for examinations. Formal procedures for appointment to managerial positions, to faculty positions, and to support roles are under the authority of the Court, Council, and, respectively, Board of Trustees, whilst the actual appointments are delegated mainly to faculty. At Oxford, on accepting the Said benefaction in 1997, there was extensive debate in Congregation over the procedure for appointing the Dean of the Said Business School. The Dean was appointed by the University, but subject to the agreement of the Board of Trustees of the Said Business School Foundation. The Dean was simultaneously appointed to a Professorship, according to the University usual procedures.

Differences in corporate governance have implications for the management of business schools, including their approach to innovation. External representation is designed to make universities, as still substantially state-funded institutions, sensitive to external interests. The expansion of higher education has been justified as being in the public interest, with universities, especially business schools, seen as contributing to economic development, both through providing graduates with relevant education and training and through undertaking research relevant to economic performance. Although external board members are explicitly expected to act as individuals, and not as representatives of external interests, even when nominated by representative bodies, the careers and backgrounds of external members inevitably influence institutional priorities. Board members are almost exclusively from managerial and professional backgrounds at Southampton, and largely so at Glasgow; the CEU Board of Trustees reflects George Soros' broad intellectual interests, including philosophers and educationalists. Boards are naturally anxious to foster values and interests reflecting their own, without interfering in the details of faculty management—Oxford's very different corporate governance arrangements provide for greater academic authority. Differences in corporate governance do not determine patterns of innovation; but they do indicate different likely directions, with greater sensitivity to external teaching and research agendas at Glasgow, Southampton, and, in a different way, CEU than at Oxford. One issue for which boards have particular responsibility is the selection of university vice-chancellors, who, in turn, have the major influence on the appointment of heads of academic departments, including business schools.

(2) The second dimension is the distribution of power and authority, both between business school and university and, within the business school itself, between dean and faculty members. Business schools have the same fundamental structures of power and authority as other academic departments. However, unlike many academic departments, business schools are necessarily outward facing, responsive to a wide range of stakeholders: business communities, national

governments, local communities, as well as university, student, and faculty professional communities. Deans need to foster relations with the external business environment, as well as with the academic community. The expectations of the business community and those internal to the university may differ, with the external business community looking for directly, practically relevant teaching and research, whilst the university looks for international prestige through fostering teaching and research that contributes to theoretical development.

The appointment of business leaders as deans of several business schools is a clear recognition of the distinctive position of business schools in universities: business deans indicate clear sensitivity to external business interests, and, additionally, provide direct experience of managing in large organisations. This was done in only one of the four schools in which I worked, and, as in most other European schools, the appointments were not successful. University and business cultures diverged, and the management experience and skills acquired in business proved difficult to transfer: faculty working in business schools, especially in high-status institutions, were too committed to their own disciplines and values to accept without question the hierarchical assumptions of business deans.

Business school deans are middle managers responsible for the allocation of resources, within constraints set by senior university management, and for the internal operations of the school, within rules set by senates. Internal management is more problematic in business schools than in other departments, reflecting different types of professional background (whether primarily in business or in academia), and different faculty responses to the complexity of the school's stakeholder environment. Some faculty are oriented towards academic priorities, others towards internal academic management careers, and others still towards external business interests. Differences in experience and orientation have serious consequences, for example regarding individual remuneration. Business school faculty, especially in highly remunerated functions such as finance, accounting, and marketing, compare their levels of remuneration with similar management professionals in other types of organisations, and seek, sometimes successfully, higher levels of remuneration. Faculty oriented towards the business community have opportunities for higher levels of earnings than other faculty in the business school or in other departments, primarily through consultancy and teaching on executive management development programmes. Such differences inevitably result in strong internal conflicts over the appropriate remuneration for different types of activity, and over the extent to which external consulting activity should be encouraged, or permitted. Of course, business schools also have the same conflicts over pay, promotion, job security, and contracts as amongst members of other departments.

One aspect of middle management is the handling of relations with students. Students are major stakeholders in business schools, especially when they are

directly responsible for course fees. Deans seek to define and manage student expectations. The responsibility of the dean is to do so both regarding the curriculum and the overall student experience. Management students undertaking MBA programmes regard themselves as fee-paying customers, as well as (and sometimes rather than) students. Their expectations regarding the relevance of the curriculum and the pattern of teaching define acceptable content and criteria for evaluation—faculty members prepare course outlines which, once circulated, become ‘contracts’. Student expectations are often conservative rather than innovative, conditioned by earlier experience, the textbook, and the wish for directly applicable knowledge. Where curricula are based on standardised conceptions of the discipline—‘everyone knows what an MBA looks like’, curriculum innovations become problematic. Only a small number of elite institutions—such as Stanford Graduate Business School and Yale School of Management, in the US, and INSEAD, in Europe—have the prestige to innovate and to persuade students to accept the institution’s definition of quality.

(3) In universities, task performance has historically been decentralised, with individual teachers responsible for the content of courses, and their mode of delivery, as well as their own research agendas. This optimises the use of individual professional skills and experience, facilitates personal interaction, and is consistent with the principles of academic freedom. High levels of autonomy provide scope for professional workers to innovate. However, there are strong pressures towards standardisation and external monitoring and measurement to improve overall performance in both teaching and research.

In teaching, individual professional autonomy, and the focus on personal interaction as the foundation of teaching and learning, is carried to extremes at Oxford, with the continued use of individual and paired tutorials at undergraduate level—none of the other three institutions adopted similar methods. (Oxford’s score on hours of teacher–student interaction is low: hours are few, but the interaction intense.) However, growth in student numbers is increasing pressure for standardisation and central control of task performance in teaching, further justified on the grounds of equity and quality assurance, as well as reducing costs. In the UK, standardisation was institutionalised in the Quality Assurance Agency (QAA), responsible for monitoring and evaluating the quality of educational provision in universities, according to an elaborate quality framework: units of assessment (such as ‘business studies’) were given scores (out of 24) and grades indicating their quality. The development of such quality assurance procedures were premised upon the principles of industrial engineering, with the separation of conception from execution. In industrial enterprises, responsibility for new product development is concentrated in specialised research and development (R&D) divisions, with operations determined according to the principles of systems

engineering, embodied in IT systems. In teaching, conception has become centralised in bodies responsible for accreditation, supported by bureaucratic procedures for monitoring and evaluating curriculum development, methods of course delivery, and student performance. Hence, the quality of institutional teaching provision is assessed quantitatively, by the number of class contact hours. Quality assurance and accreditation procedures establish minimum acceptable levels of performance, boosting the quality of provision according to the stated criteria and introducing innovations in low-performing institutions. At the same time, such standardisation may constrain innovation in high-performing institutions.

Similar pressures for standardisation and performance measurement operate in research. Historically, individual faculty were responsible for defining their own research interests and priorities, in management as in other subjects—research agendas were devolved. In many disciplines, including some sectors of management, the major cost is time, over which individuals have significant control. Where research involved further costs, research funding followed ‘responsive mode’ procedures, whereby individual academics submitted research proposals to national research councils, with research council committees composed primarily of academics deciding on funding according to their conceptions of quality. Innovation was highly rated, within conceptions of quality defined by senior academics. Securing funding for research in management posed special difficulties, and applicants’ success rates were low, approximately one in three. Serious empirical research in management required the negotiation of access, usually difficult to secure: firms were anxious about commercial confidentiality and time wasting, and especially reluctant to discuss management failures, although understanding failures is a major source of learning and innovation. Moreover, the intellectual quality of management research, for example in research methodology, often compared badly with research in more fully developed disciplines, such as economics. In the UK, university institutional funding for research is distributed according to performance in the Research Excellence Framework (REF). The research performance of individual faculty is evaluated according to international quality standards. In practice, this is usually measured by publications in ‘A-rated’ journals, with ratings based upon assessment of journal quality by international peers; ABS publishes a listing of quality journals. Journals such as *Administrative Science Quarterly (ASQ)*, *American Economic Review (AER)*, *European Journal of Operations Research (EJOR)*, and *Management Science* are weighted heavily. Institutional research income is determined by totalling the average individual scores of faculty in each unit of assessment, for example ‘business and management’ (the largest unit of assessment, by far), and allocating an average score. The papers published in such journals are expected to contribute to the development of management theory,

rather than management practice; pressure from business and government for research to be relevant to practice is honoured in form, but largely neglected in substance. Increasing competitive pressure for improvements in research methodology may enhance academic innovation, but increasing methodological sophistication may have little relevance for the resolution of practical problems. Institutional expectations, individual incentives, and the interests of practising managers are not always aligned, in management research—institutions expect contributions to theoretical knowledge, practising managers want business solutions, whilst individuals seek financial and other rewards.

Under traditional ‘responsive mode’ means for funding research, research questions are defined by the researcher. This leaves the field completely open for innovation. Since the 1980s, research programmes have become increasingly common, in which central research councils ask for research proposals addressing specific topics, usually of current policy interest, to undertake ‘useful’ research. This has the advantage of attracting researchers to direct their research to issues of national importance, without restricting the research precisely. For example, currently (2012), Research Councils UK (RCUK) is running a research programme on the theme of ‘The Digital Economy’, and seeking proposals for research on ‘New Economic Models in the Digital Economy’. Such programmes channel innovation in specific directions, with the advantage of informing current policy debates, but with the disadvantage of reducing the funding available for ‘responsive mode’ research, and thus limiting the scope for potentially innovative research.

In both teaching and research, external influence on business schools has increased, with standardisation and increased monitoring justified on the basis of improving quality. The external influence has raised the overall level of performance. At the same time it has reduced the scope for individual initiative and innovation.

Financial centralisation

Competitive pressures for reductions in costs lead to centralisation of financial control, to reduce risks and to prevent the seepage of resources facilitated by decentralised structures. Moreover, central financial control is a means of building up capital resources, to fund corporate infrastructure and investment in new technologies, new product development, and institutional innovations, as well as to cover management overheads. Firms differ in the procedures for deciding upon capital investment, especially the degree of discretion allowed to lower organisational levels, the level of detail in establishing annual operating budgets, and the extent of monitoring of operating and personnel costs. Private sector

organisations differ in the level of financial centralisation. During the 1990s, large diversified corporations, following explicitly decentralised strategies (such as the P&O group, with five divisions spread from construction to shipping), combined strict central financial controls with performance measured quarterly against centrally determined annual targets, within a highly diversified corporate structure—financial centralisation was combined with operational decentralisation. In universities, competitive pressures for financial centralisation are reinforced by requirements of public accountability, with institutions providing detailed accounts to demonstrate the proper use of resources for the purposes for which they were allocated, thus limiting cross subsidisation, for example between research and teaching activities. Centralisation of financial control is currently easier than in previous decades because developments in IT, and investments in IT, enable real-time monitoring of expenditures.

Business schools have strained relations with senior university managers over finance. In some circumstances, business schools may have a different relationship with their universities than other academic departments, with greater financial independence, and often greater financial responsibilities (for example, covering mortgages for buildings), reflecting their particular economic circumstances. But this was not so in the three British examples discussed here, whilst the financial arrangements for CEU BS were different, with funding arrangements separate from other departments until recently. Business schools were expected to contribute more to overall university budgets than other departments because they were perceived to be capable of generating more revenue—complaints of being treated as ‘cash cows’ were commonplace at gatherings of business school deans. The popularity of business studies amongst applicants for undergraduate university places, the high level of fees charged for postgraduate courses, especially MBA programmes, and income from executive teaching programmes generated substantial surpluses for business schools. Business schools were required to contribute a proportion (typically around a third) of the revenues generated by non-quota full-fee paying students, (primarily non-EU) to the centre of the university, as a contribution to covering overhead costs. A major job for business school deans became managing the level of transfer from business schools to central university funds—use of business schools as university ‘cash cows’ obviously reduced the resources available for innovations within the schools themselves. One of the roles of accreditation procedures is to legitimate arguments for retaining funds generated by business schools for their own use, especially for innovation (as investment in IT systems, for example), rather than transferring them to central university bodies for use for general university purposes.

Within business schools, deans manage expenditure, within overall budgets set by higher university management: institutions differ in the level of central control of individual budget lines, with staff expenditures usually controlled in more detail

than equipment expenditures. In addition to normal housekeeping parsimony, this involves seeking to achieve equity, and feelings of fairness, amongst individuals with nominally equal status but different earning power. Innovation raised particular issues for maintaining commitment and equity in two ways, in the case of the four examples discussed here. First, why should innovation be rewarded, where standard measures of effort and performance were based on teaching hours, student numbers, and publications, especially when there was scope for argument over indicators of innovation? Second, more fundamentally, what was the proper distribution of the rents from innovation between the individual and the institution? Where individual faculty members possess academic expertise directly helpful to business practice, for which business is prepared to pay, there is an obvious potential conflict between the financial interests of the individual faculty member and those of the school. The conflict is endemic to consultancy, much of which is routine, for which business schools have developed standard practices (time allowances, revenue sharing, and ‘blind eyes’). Innovation raises more complex issues, especially difficult to resolve because innovations are by definition new. On the one hand, where individual faculty members have developed expertise, perhaps embodied in a specific technique or research instrument (for example, in measuring optimisation in supply chain management), they should be rewarded. On the other hand, the school has provided the context that enabled the individual faculty member to accumulate the expertise and cultural capital that made the innovation possible, and, therefore, the rents for the innovation should not be appropriated exclusively by individual faculty members. One means of reconciling the interests of the institution with those of the individual in exploiting innovation is through creating a new joint company, with ownership either shared with the school or wholly owned by the individual faculty member, paying a royalty to the school. Such arrangements are common to science and engineering faculties, but relatively rare, and difficult to operate in practice, in business schools, where innovation is more difficult to distinguish: tension over such a situation lasted for several years at Glasgow. (The relation between universities and start-up companies is an important theme in innovation, but more relevant in science and engineering than in business schools (Garnsey and Heffernan 2005).)

Innovation

Business school faculty contribute to management innovation both through the development of new knowledge and concepts and through dissemination of current knowledge (often misleadingly called ‘best practice’) by teaching and consultancy. Some areas of academic management research—such as operations research, marketing, business strategy, industrial economics, and human resource

management (HRM)—have contributed directly to management practice through the development of new concepts and ways of thinking. Finance was perceived as the ‘most useful domain of research emanating from business schools’, until 2008, providing the means for evaluating risk and, thus, the foundation for market expansion (Learmouth, Lockett, and Dowd 2012: 38). Other research has contributed to innovation by documenting and systematising current practice, as in much research in organisational behaviour.

This section addresses the issue of the contribution business schools make to innovation externally, both through research and through teaching. There are several programmes and textbooks on managing innovation (Tidd, Bessant, and Pavitt 1997, for example, now in its fourth edition), of greater or lesser practical value, which I do not wish to discuss specifically here. Instead, I want to discuss the different ways in which business schools can contribute to innovation generically. Business schools contribute to business innovation in five ways. The first is through documenting, systematising, and disseminating current best business practice. The second is through exploring the difficulties and limitations of current best practice. The third is through the empirical study of specific management issues, which may or may not give rise to more fundamental research. The fourth is through developing new ways of thinking about business. The fifth is through direct assistance to managers through consultancy.

The first contribution is through documenting, systematising, and disseminating current practice, both through teaching and through publishing textbooks. Textbooks form the ‘working general knowledge’ for managers, providing the framework within which the business world is interpreted and answers to specific questions, as well as fostering specific business values. Some textbooks achieve large sales and exercise considerable influence; a former Glasgow colleague’s standard textbook is now in its seventh edition, and had sales of nearly fifty thousand copies a year, at the height of its popularity (Huczynski and Buchanan 1985). The HRM model developed by Beer and colleagues (1984) at Harvard Business School, published in *Managing Human Assets*, became conventional wisdom through incorporation in standard HRM texts. Almost overnight, departments of personnel management became the human resources function, accelerating existing trends towards the de-collectivisation of employment relations (Legge 1995). Textbooks define conventional wisdom. Such definitions initially assist in the diffusion of innovations, the growth of HRM, for example, leading to the adoption of new techniques of selection, training, and remuneration. But conventional wisdom subsequently becomes a force of conservatism—as Keynes famously commented, the thinking of contemporary politicians is dominated by the words of an out-of-date economics textbook.

Textbooks naturally contain some critical evaluation of conventional wisdom. But such evaluations are limited, since textbooks aim to outline current thinking,

not to undermine it, and textbooks that raise more questions than answers—and fail to provide solutions—have limited value for practically oriented managers. The second contribution to innovation is, therefore, through exploring the underlying limitations of current best practice. In HRM, for example, the development of the ‘best fit’ critique of ‘best practice’ thinking illustrates the role of business school contribution to innovation (Boxall and Purcell 2003: ch. 3). The issue is whether best practices are applicable across all organisations, or whether best practices should be adjusted to ‘fit’ different corporate strategies, and, if so, what form the fit should take.

The third contribution to innovation is through the investigation of specific empirical issues and the resolution of specific empirical problems, which may result in formulating recipes or formulae of general value. The bulk of management research contributes to innovation through accumulating such empirical data, which provides the basis for generalisations subsequently incorporated into textbooks. The issues addressed may be highly general: Michael E. Porter’s (1990) study *The Competitive Advantage of Nations*, for example, sought to explain why some countries have been more successful than others at generating economic growth. Others may be highly specific: my own early research, for example, was concerned with the introduction of new technology, primarily in the newspaper industry, examining different approaches to the introduction of computerised photocomposition in British national newspapers (Martin 1981).

The fourth contribution to innovation is through developing new ways of thinking, that lead management in new directions. Changes in corporate governance from the 1990s onwards, with the growth of corporate structures based on the priority of shareholder value, owed much to business school thinking. The ‘financialisation’ of business (Davis 2009), the dominating influence of finance in the US, and the efficient capital markets hypothesis provided the framework for corporate restructuring until the financial collapse of 2008. Transaction cost economics developed by Oliver Williamson (Carroll and Teece 1999) combined with agency theory to provide the intellectual grounding for the focus on markets rather than hierarchy which underlay the development of models of corporate governance in the 1990s. Such theories provided the basis for the shareholder value models of corporate governance that were taken up by the Organisation for Economic Co-operation and Development (OECD), and formed the basis for corporate governance rules in Central and Eastern Europe (as in the *Corporate Governance Recommendations* of the Budapest Stock Exchange).

The fifth contribution to innovation is through direct consultancy, the provision of advice directly to business and government. Consultancy takes different forms: assistance in resolving specific business problems or provision of customised management development programmes. Consultants, including business school

consultants, transfer four types of knowledge: ‘visions’; procedures (for setting up project teams, for example); tools (simulation tools, for example); and individual project knowledge (Ernst and Keiser 2002: 53). Consultants commodify knowledge, and, in doing so, accelerate its circulation.

Underlying the discussion of the role of business schools in innovation is the question ‘Who defines the problem?’. To simplify, problems may be defined externally, by business or by the state, or internally, according to the logic of scientific theory. For business schools, problems are usually defined externally, by business or by the state, or, very occasionally, by other external bodies such as consumers’ associations or trade unions. Some such problems are at the level of the enterprise and specific—optimisation of workflows, analysis of new markets, or construction of new corporate structures, for example. Others are general—the best way to increase rates of economic growth, for example. External definitions of the problems lead to ‘pull’ models of innovation. For example, EU Research Framework 7 (Research and Innovation), covering 2007–13, identifies a range of (rather general) priorities in seeking research proposals meeting the needs of the Lisbon Agenda. Such announcements pull research in specific directions. Internal definitions of the problem lead to ‘push’ models of innovation, in which advances in scientific knowledge lead to new understanding, which may eventually lead to the development of new products. For example, advances in physics led eventually to the development of nuclear magnetic resonance (NMR) technologies, which in turn led to new methods of medical diagnosis. Such innovations begin with theoretical hypotheses, experimentation, and the application of the hypothetico-deductive method, and can end with the development of new products and, occasionally, with technological transformations.

The difference between the two approaches is less sharp than indicated. External questions, whether defined by business or by governments, usually leave scope for academics to define questions in ways which meet their own intellectual aspirations, and are resolved through the use of theories. For business schools, ‘pull’ models of innovation are most relevant, with management at best more like medicine than physics: questions begin outside the theory, with issues of diagnosis and treatment. In some areas of management, such as economics and sectors of operations management, the theoretical structure of the discipline may be strong enough to support theory-driven research. However, in other areas, such as organisational behaviour, strategy, and HRM, theories are less well developed. This is not simply a reflection of the ‘infant’ state of management theory, compared with older academic disciplines. It reflects the nature of the subject. Management behaviour is conditioned by values, subjectivities, and self-conscious reflection. Management research is, therefore, more of an art or a craft than a science, although it makes use of scientific methods of acquiring and analysing knowledge. Moreover, even in the most scientific area of management, financial

markets, the increasing importance of ‘herd’ theories of market behaviour suggests that theories of markets are less well founded than previously thought.

Working smarter

Working smarter involves innovation, the design and creation of new products and services, and the diffusion of innovation. Invention is a matter of individual imagination; innovation is the process of transforming ‘bright ideas’ into useful products and services; and the diffusion of innovation is more a matter of organisational structures and institutional arrangements, including the role of universities. Business schools play an increasingly central role in universities, partly because of their popularity with students, seeing business degrees as a means of securing well-paid employment, partly because of the potential business schools are seen to have for contributing to economic performance. This article has been concerned with the latter: it has examined business schools as institutions, through the centralisation / decentralisation theme, and their effects on the potential for innovation, both internally, within the business schools themselves, and externally. This article has not sought to provide a comprehensive review of the field—it has reflected personal experience, and a background in employment relations, HRM, and organisational behaviour, rather than, let us say, operations or marketing. Direct experience of other management sub-disciplines might have led to different reflections. Business schools have a distinctive position in universities, because of their strong external orientation, the variety of their stakeholders, their popularity with students, their often fragile theoretical and methodological bases of management research, and, often, their relative financial strength. Business schools contribute to working smarter through the development of new knowledge, the systematisation and diffusion of current practices, and the development of management skills and values.

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