We Give You Science: Organizational Economics and the Evolution of a New Management Science

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Abstract

During the 1970s and 1980s, agency theory, transactions cost economics, and game theory came of age, collectively providing the theoretical hardware for a new sub-discipline called organizational economics that combined traditional managerial interests in organizational dynamics with rigorous economic analysis. At a moment in business school history when the search for scientific credibility created a demand for the tools that economists had on offer, management educators generally greeted the new tools of organizational economics with open arms. Here were methods and models, forged in the respected realm of scientific economics. As a result, organizational economics exercised significant influence on the evolution of management science. In hindsight, this influence has become a focal point for harsh criticisms of contemporary business school outcomes.

While it may be easy to characterize this infiltration of new methods and models as economic imperialism, and to label the pernicious outcomes as unintended consequences, the full story is more complex. This paper reviews this episode of economic history and argues that it reveals much about the difficulties associated with value neutrality in economics and the search for method in developing academic disciplines such as management science.

Annotated Outline

I. Introduction
   A. Economics and the ethos of value neutrality
   B. Business schools in transition

II. Development and Influence of Organizational Economics
   A. Canonical texts of the emerging discipline of organizational economics
   B. Citation patterns
III. Incorporation of Organizational Economics into the “New” Management Science


IV. Retrospective Views on the Influence of Organizational Economics in Management Education

A. The “Ghoshal critique” and other views


B. Positive science and ideology in organizational economics


C. The search for method and credibility in management science

V. Summary: In the 1970s economists consciously extended their domain into the realm of organizational theory. Some have interpreted this as a prime example of economic imperialism, but as they exerted influence on a “new” management science, economists found willing customers for their theories and models. Business schools, eager to establish “scientific credibility”, generally greeted the new tools of organizational economics with open arms. In retrospect, this absorption of economic methods into management education included ideological influences as well, with what some now perceive as deleterious effects.