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The ideology of innovation

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Undaunted by over a decade of scholarly criticism (e.g. Bebchuk and Fried, 2005; Ghoshal and Moran, 1996), senior American executives have stood firm on their moral beliefs about the free-enterprise system – beliefs that justify extravagant increases in executive compensation despite declining firm competitiveness, and the preservation of corporate profits through outsourcing to low-wage countries, layoffs and reductions in benefits for American workers. Of course, moral positions are built to withstand rational critiques. The current moral foundation was laid in the 1980s when President Reagan and Prime Minister Thatcher successfully wrapped the US and British economies in a cloak of righteousness as part of their efforts to bring down what was often referred to as the 'godless' Communist regimes of the Soviet Union and its allies. Given the power of moral beliefs, and the fact that managers' values reflect broader societal values – a linkage examined in depth in the 1950s and 1960s (Bendix, 1956; Parsons, 1959; Sutton et al., 1956; Weber, 2001; Weber and Parsons, 1968) but mostly ignored in the management literature today – we believe that any attempt to substantially reorient US firms must consider the moral underpinnings of the policies that guide them.

A focus on business practices and the managerial values and beliefs underlying them is particularly important, we suggest, because the USA and other advanced countries compete primarily on the basis of knowledge-driven innovation and entrepreneurship (Baumol, 2002; Baumol et al., 2007). Knowledge is shared most freely in organizational settings where trust is anticipated and consistently maintained. Trust, in turn, is created and sustained when equitable treatment is valued and pursued by both the leaders and members of firms. In such settings, the excitement and pleasure of creating value through collaborative innovation is reinforced over time by the equitable sharing of rewards (Miles et al., 2005). It is our contention that the managerial values essential to the creation of conditions such as these have been eroding in the US marketplace for more than two-and-a-half decades, a decline that threatens to weaken the ability of US firms to compete through continuous product and service innovation.

Indeed, the relative US position on key indicators of social and economic health has noticeably declined, a phenomenon that began in the mid- to late 1970s. While the disparity between executive and hourly employee wages is the most dramatic difference between US firms and their international competitors, it is becoming increasingly difficult to find a work or social welfare category in which the USA is a leader in the global economy. The concern that the shift in societal and managerial values reflected in these indices has had a negative impact on the capabilities and innovation initiatives of US firms was reinforced by *The Global Competitiveness Report* (2006), issued by the World Economic Forum, in which the US economy was ranked sixth behind the economies of Switzerland, Finland, Sweden, Denmark and Singapore. This report, based on available statistics and a global survey of more than 11,000 executives in 125 countries, is of interest primarily because the USA has the world's leading research universities and numerous firms widely respected for their R&D capabilities – both of which had contributed to the USA being number one in all previous World Economic Forum rankings.

Although the accuracy of the competitiveness rankings is debatable, it seems clear that the world of international business is no longer in awe of US competitive prowess. Such was not the case 50 years ago, when the US economy and its constituent firms were the standard to which most of the nations outside the Soviet bloc and mainland China aspired. During the last few decades, foreign companies have equaled and even surpassed US firm performance in older industries such as automobiles, metals and consumer electronics. Now, perhaps, the USA may be losing its competitive edge in the newer, knowledge-intensive industries in which it has always been a world leader.

In this essay, which we hope will spark increased research on management ideology among strategic management and other scholars, we first briefly describe the societal and managerial values that appear to have guided firms in the early days of American business, relying heavily on the historical accounts of Bendix (1956), Chandler (1962, 1977) and Pelling (1960) as well as a recent analysis by Hoffman (2007). We then discuss how those values changed, largely as a result of the Great Depression and the Second World War. Lastly, we describe the managerial and societal values that dominate today. In the process, we explore the ideological basis of innovation and the changes in values that the USA would have to undertake in order to remain among the global leaders of advanced economies. To preview our conclusion, we are not optimistic about the likelihood of major changes occurring in the short run. Individual and societal values change slowly, and a great deal of change is needed. In fact, based on past US experience, we believe that it may take a severe recession, or some combination of traumatic experiences, to convince American political, business and academic leaders that they are on the wrong moral track. On a positive note, however, we point to the example of Finland, which, we believe, not only substantiates our claim that innovation is driven by trust-supporting values and the pursuit of equitable treatment but may also demonstrate a transformation process of interest to US policy-makers. In addition, we recommend that scholars increase their research-based normative theorizing about fundamental relationships among national culture, societal and managerial values, and the structure and conduct of economic enterprise.

Early American business values

The colonies (and later states) of the northeastern USA were a haven for workers seeking both political and economic freedom. Worker – and especially skilled worker – shortages, coupled with the option to homestead, kept wages high (Pelling, 1960). Large corporations, which President Lincoln reportedly said he feared more than the southern armies, appeared in the middle of the 19th century, but over 50 percent of American workers remained in primary industries until the 1880s (Bendix, 1956). Railroad, oil and mining companies flourished during the latter half of that century, producing an era of economic growth that exceeded the growth of European firms and was linked to continual strife between corporations run by 'robber barons' and labor unions led by 'anarchists', at times turning violent such as the Haymarket Riot in 1886 and the use of the National Guard to try to break strikes in steel (1892) and mining (1914) (Pelling, 1960).

The growth of US firms and their economic achievements continued into the early part of the 20th century, undeterred by the Sherman Antitrust Act passed in 1890 to limit the power of companies whose size and strength allowed them to dominate not only their competitors but their employees as well. Ironically, it was labor organizations rather than corporations whose behavior was most often charged under the act to be in restraint of trade, as the Danbury Hatters Union learned in 1908 (Pelling, 1960). Not only was firm behavior seldom constrained, but US international business interests were increasingly supported militarily, particularly in Latin America (Reich, 1991). Thus, it was the period from the end of the 19th century through the early 20th century when American business came of age ideologically, borrowing on the philosophy of libertarian Herbert Spencer and the economic religion of ministers like the Reverends M. D. Babcock and Samuel Smiles for the moral rhetoric to support the 'open shop' doctrine (Bendix, 1956).

The US position as a new but important global leader was solidified by the crucial role it played in the Allied victory in the First World War and by its efforts to forge a multinational governance mechanism. However, the wartime victory quickly won became the global peace weakly drawn, a peace that laid the seeds of poverty that flowered in Europe and ultimately spread abroad. In the war's wake, the USA enjoyed the booming 1920s with little thought given to the consequences of firms, markets and financial institutions operating at high speed with inexperienced drivers and inadequate controls or to the political poison brewing in central Europe.

According to Chandler (1962, 1977), the large industrial US corporation, represented by firms in the transportation (railroad), oil, chemical, mining and tobacco industries, was firmly established by the time the First World War began, for the USA, in 1917. Indeed, business was 'at the height of its prestige in the 1920s when the businessman became the authority on matters economic, political, and even aesthetic' (Krooss, 1970: 3). Nevertheless, even though business was in many ways more powerful than government or labor, the rudimentary elements of today's *stakeholder model* of management began to appear (Hoffman, 2007). For example, Gantt (1919) proffered the idea of 'service', which he defined as the corporation's concern for the needs of consumers, employees, the community and the nation. The social philosophy of 'trusteeship', which emerged in the 1920s, went even further. Trusteeship said that managers were responsible for maintaining an equitable balance between the various claims of employees, customers, suppliers, creditors and the community as well as stockholders (Hay and Gray, 1974). Before these and other ideas could crystallize into a workable management model, however, the Great Depression turned everything on end.

Changes in values caused by the Great Depression and the Second World War

The USA is losing its living memories of two major events that dramatically changed the course of its history: the 1929–40 depression and the war years from 1941 to 1945. The young pilot who took part in the Battle of Midway, for example, just had his 84th birthday, and his mother and father who struggled to keep him fed, clothed and in school during the 1930s have been gone for a decade or more. Nevertheless, the achievements of the participants in those events are heroic enough to impress anyone who takes the time to examine them.

The Great Depression was a global catastrophe to which the newly emergent American political and business leadership was a contributor. While, in retrospect, it seems apparent that the Great Depression was predictable, as was perhaps the Second World War, the USA at least had the excuse of being an adolescent global power. Nevertheless, as dire as the days of the 1930s were, they made it possible for useful economic and social reforms to be implemented and their misguided features to be recognized and effectively reshaped over time. For example, in the private sector, both the scientific management and human relations movements helped to reshape managerial ideology in the 1920s and 1930s (Bendix, 1956). While the core ideology supporting the open shop and managerial authority did not change the emphasis on managerial rights of control, scientific management and human relations shifted the justification from the Spencerian argument of management rights based on survival of the fittest to managerial rights based on the pursuit of scientific approaches to work design, as well as the recognition of worker interests and needs. In the public sector, US experiments with welfare provisions, social investments and regulatory policies were, by the standards of other leading countries, long overdue, but they laid a firm foundation for expansion during and after the Second World War. Indeed, it was the desperate days of the depression and supportive government policies (e.g. the Wagner Act of 1935 and the formation of the National Labor Relations

Board) that finally allowed the US labor movement to function as a meaningful player in the political and economic arenas, a labor movement that would later play an important role in the movements for women's and minority rights.

The US entry into the Second World War after the attack at Pearl Harbor was in many ways simply a formal acknowledgment of the military and financial aid already flowing to its allies engaged in the war in Europe. Nevertheless, this increased burden was placed upon a society that was already tested and ready to engage in both the economic and military challenges the great conflict posed. The response was an incredible victory on all fronts. In barely over two years, the USA created the most impressive arsenal of land, sea and air military forces in the world. In support of the military, and despite the absence of most prime-age white males, the US economy mounted a wartime push whose productivity numbers still are almost beyond belief. Members of minority groups who had seldom been given the opportunity showed their abilities, as did Rosie the Riveter and her thousands of female factory associates. Not only were the previously unsought – women, minorities, physically handicapped, illiterate – enlisted in the ranks of workers; they were quickly trained and given the skills that would make them productive not only in their wartime jobs but in their lives after the war.

The societal responses mounted to the economic and military attacks leveled by the Great Depression and the Second World War are impressive in terms of both their design and execution. Those responses are also impressive in terms of the depth and pervasiveness of the ideological base that supported them. Of course, both of these historic events were of such magnitude that they obviously demanded the full utilization of society's best and brightest, and the moral basis for the responses was easily forged. For example, government programs during the depression were not only sound and righteous in their efforts to feed the hungry, but also because they provided the least employable people with needed job skills via public works projects, and they helped many people improve their lives through public investments such as housing subsidies by the Federal Housing Administration. Over the course of the depression, the economic policies that were adopted increasingly gave evidence of a society both responding to an immediate need and investing in its own future, particularly at the socioeconomic levels least able to make that investment on their own. Indeed, the New Deal was presented as a moral charge to a just democracy.

Similarly, the moral basis of the Second World War was so widely recognized that the primary challenge was to give everyone a role to play in its execution. Meatless meals, repeatedly mended clothing and shoes, and hard-earned dimes used to buy savings stamps were activities that involved the whole of society and gave everyone the opportunity to take part in a morally justified effort. It also gave everyone the felt right to condemn those who appeared to be extracting personal benefit from the collective effort. The main values built into the nation's responses to both the depression and the war were those of equality of rights and purpose as well as shared responsibility for the well-being of all.

The country's sense of community and collective efficacy probably was at its peak during this period.

The moral values of helping others and investing in the future of all members of society not only flourished in the face of the challenges of the depression and the Second World War, they carried over into the postwar prosperity and efforts to assure lasting peace. In their final form, the peace pacts imposed on both Germany and Japan were less about retribution than about assuring the evolution of those countries to democratically governed pluralistic societies with sound labor movements and constraints on the development of an elite class. Similarly, the Marshall Plan for the economic recovery of Europe was impressive in both its scope and the support it received in the USA even before its value in preserving the balance of power with the Soviets was obvious.

As a social investment, the GI Bill of Rights was the domestic equivalent of the Marshall Plan. It was not just a way for society to reciprocate for the sacrifices demanded by military service. The generous provision of both college tuition and personal support payments was an enormous investment in the country's social and economic future. GI Bill college graduates moved quickly into positions of responsibility in business and in their communities, bringing with them the values imbued from their military service. The lessons learned about leadership during the Second World War carried over into the military in the postwar period and into industry within the most progressive firms. All of the influential books and articles on leadership and management that appeared during the late 1940s to the late 1960s (e.g. Argyris, 1957; Bennis, 1966; Drucker, 1946, 1954; Likert, 1961, 1967; McGregor, 1960), we believe, essentially reflected the societal values produced by the Great Depression and the Second World War. That is, a focus on societal unity and the recognition of worker contributions to economic and military success became key elements of the belief system of most American citizens and leaders. Within this social context, research on leadership values and behaviors in the military and in postwar industry began to develop a link between firm performance and the full utilization of the capabilities of all organization members.

The 1950s were highlighted by the successful conclusion of the Korean War, the *Brown* v. *Board of Education* social victory in the US Supreme Court and the political battles waged against McCarthyism. The 1960s began on the high notes of President Kennedy's Peace Corps and Job Corps initiatives, the courage displayed in the reasoned responses to the Cold War threats in Cuba and Berlin, and the rallying of the entire nation around the collective objective of putting a man on the moon as the appropriate response to Sputnik. The mid-1960s policy highlights were President Johnson's launching of civil rights reforms and the War on Poverty, achievements which sadly owed much of their success to the country's efforts to recover from President Kennedy's assassination.

Ultimately, all of these social achievements could not offset the growing rebellion against the Vietnam War and the deaths of Robert F. Kennedy and Martin Luther King, Jr. The political movement that started with President Roosevelt's responses to the Great Depression began to give way to the values challenges posed by the Vietnam War, Watergate and political assassinations. The demise of the movement was signaled when President Carter, despite his intentions regarding domestic reforms and his successful peace initiatives, could not reignite the fire driving the Great Society policies and programs of the 1960s. President Reagan's election in 1980, and the subsequent anointment of the achievements of unfettered capitalism, brought the movement, and the moral foundation that supported it, to an end.

Changes in values produced by the free-market era

The ideological changes that began in the 1970s were due, in large part, to the achievements of the generations of the 1930s and 1940s – resulting in the coming of age of the postwar baby boomers, who had experienced only the relative good times of the 1950s, 1960s and 1970s and who had largely avoided wartime military service. Policies begun in the Great Depression, and expanded during and after the Second World War, had created a comfortable middle class that was highly appreciative of the good life generated by the US economy. Great Britain was equally enamored with its evolving economy, which, while less robust than the US economy, was far better than the British had experienced over the previous four or five decades.

It was on this base of material wealth and economic security that President Reagan and Prime Minister Thatcher stood as they sought to encourage change within and defection from Soviet bloc countries. They argued that western economies were winning the 'war' of attrition in military spending because their production machines were built on principles that were both economically sound and morally justified. Against this rhetorical backdrop, several economic and social policies created in the previous era – particularly those reflecting a collective or multi-stakeholder view in which the countervailing power of key stakeholders was seen as desirable – began to be regarded as constraints on the conduct of 'free' trade and enterprise. While neither leader argued for dramatic increases in executive salaries, neither was eager to protect old programs that fostered union strength and income redistribution. Such 'values restructuring', if you will, resulted in substantial economic gains for both firms and individuals. The expanding number of American white-collar managers and employees identified with the new values as their mutual fund portfolios grew, and business schools in the USA and abroad enjoyed unprecedented growth and influence. Now the race was on to supplant the *stakeholder value* model with the *shareholder value* model (Blair, 1998).

In Great Britain, with a broad social welfare system firmly in place, the impact of a shift in political emphasis was less dramatic than in the USA, where, for example, employment bases in the automobile and shipbuilding industries that had been important contributors to minority advancement began to deteriorate, with accompanying losses in educational and healthcare benefits for those workers. Nevertheless, in both societies – even with the assumption of benign intentions on the part of their political leaders – the outcomes were often painful, particularly to the lower class and lower-middle class, which were and are heavily populated with minorities and the less educated.

More importantly, in terms of our argument, many of the policy shifts made to assure firm and market freedom required that the societal values that had supported the reforms and social investments of the 1930s and 1940s had to be either discarded or subjected to the revisionist arguments of free-market economic purists (e.g. Friedman, 1970, 1982; Hayek, 1967). Many of those societal values, of course, were closely related to the managerial values that spawned participative leadership and decision-making, job enrichment, team building, gender equity, diversity and so on. In short, if innovation is dependent on knowledge sharing, and if knowledge sharing in turn is dependent on trust building and the pursuit of equitable treatment for all involved, then it would be difficult to imagine a less supportive values base than that which emerged in the USA, with much popular support, in the 1980s. By the end of that decade, American society was steeped in a belief system based on values such as individualism, self-interest, freedom, choice, self-improvement, adaptability to change, survival of the fittest and material wealth (Yankelovich, 1999).

Can a values base supporting innovation be reconstructed?

Although the managerial values that support the continuance of essentially unbridled free enterprise are firmly implanted in American society, we see several signs that could lead to what we believe are desirable and, dare we say, urgently needed changes that would benefit an innovation-driven economy. The most direct stimulus for changing values may come from the growing public outrage over what many people perceive to be the greedy, self-serving behavior of most senior American executives. Excessive compensation and severance packages that bear little if any relationship to firm performance are the most visible affront to the societal values of equality and community. However, it seems likely that until a generation of senior executives (and their boards of directors) begin to serve as visible role models, significant changes in managerial values and business practices will be slow in coming, even if excessive compensation practices are constrained.

In addition, new (or refashioned) business philosophies are being articulated in ways that may capture people's attention and interest. Yankelovich (1999), for example, has described a vision of civil society that emphasizes the importance of rebuilding the nation's social capital and of restoring the old balance between rights and responsibilities. In his vision, the USA could have free markets *and* a civil society characterized by values of community, faith, responsibility, civic virtue, neighborliness, stewardship and mutual concern for one another. Others have described 'ethical' or 'karma' capitalism (Engardio, 2006), which overlays values such as compassion, fairness and collective gain on the free-enterprise system. If such visions and approaches take hold and spread, then enduring values change may occur as well. Given these and related prescriptions, it is possible that a challenge to the prevailing economic and management ideology may be emerging.

Lastly, although American managers and firms presently appear to be impervious to scholarly criticism, the temperature of the debate within academic circles seems to be rising. As we noted earlier, a decade of critiques began with Ghoshal and Moran's (1996) description of management theories that are 'bad for practice', and their provocative article sparked a discussion of theories that are 'good for practice' (Miles et al., 1998; Miles and Snow, 2006). Recently, two related articles have received best-paper awards from prominent management journals. First, Ferraro et al. (2005) brought new energy to the critique of managerial attitudes and behaviors when they described how theories can become self-fulfilling prophecies, thereby highlighting for both scholars and managers the importance of the managerial values–practice relationship. A few months later, in a posthumously published article, Ghoshal (2005) described how bad theory influences what we as academics teach and how it destroys good management practice. It was accompanied by an invited set of generally supportive commentaries by prominent academics.

Nevertheless, despite an increased concern about the possible negative consequences of certain economic and management theories, it seems unlikely to us that major changes will occur without a concerted effort on the part of business and government leaders as well as academics. Such an effort, which could take more than a generation to achieve, will require an understanding of how societal and managerial values change and a set of credible prescriptions for making desired changes.

Implications for research

Swift values restructuring is unlikely to occur, we believe, because managerial beliefs and behaviors are unlikely to move very far in front of the broader societal values reflected in public policy or lag very far behind them. Thus, if one were to take seriously the most recent *Global Competitiveness Report* ranking of the USA, one would look not only at the management approaches used in the leading countries but also at the societal values reflected in those countries' political and governmental policies. For example, Castells and Himanen (2002) examined the interaction of managerial and societal values in their study of how Finland became a global leader in information technology products and services. As recently as three generations ago, Finland was a poor country, dependent on agriculture and natural resources. While its transformation began after the Second World War, it was not until the end of the 20th century that a majority of Finland's exports were from electronics and metal goods as opposed to farm and wood products. That transformation, Castells and Himanen argue, was fueled by Finland's heavy, purposive investments not only in economic infrastructure but in social institutions and programs, investments that survived and even intensified during the worldwide recession of the early 1990s. While Castells and Himanen are careful about drawing causal inferences from a single-country study, their analysis makes a strong case that Finnish social ideology is directly linked to the large investments that were made in the country's welfare and pension systems, healthcare and elementary and university education. Such investments, they suggest, not only reduce social inequality, they promote an open society that is supportive of broad cooperation between firms, employees and the public.

Following the logic of our argument, we have no difficulty linking the Finnish social investments, though arguably broader and more intensive than those made in the USA during the 1930s through the 1960s, to the continuing expansion of Finnish innovation prowess. Indeed, the Castells and Himanen (2002) study is a valuable, though unfortunately rare, modern exploration of relationships between societal values and policies and the management ideologies underlying the design and behavior of firms. Given that Finland is succeeding in innovation-based competition with much larger countries, one could hypothesize that Finnish societal values support trust-based business practices, particularly those linked to knowledge sharing and the equitable allocation of returns among innovation partners. This hypothesis is borne out by one study that highlights the capability of some Finnish firms to achieve 'fast trust', even between firms of unequal size (Blomqvist, 1998).

Building on the Finnish research and our earlier discussion of the US experience in the 1930s and 1940s, one could theorize and design research to explore the linkages between social ideologies and investments and managerial values and business practices supportive of innovation. Some research along these lines already exists. For example, as part of an analysis of cultural values, Hofstede (2001) investigated empirically the links between national culture and various socioeconomic indicators. Indeed, even a cursory examination of the countries besides Finland that are currently ranked ahead of the USA in competitiveness (Switzerland, Sweden, Denmark and Singapore) suggests that they have national investment and welfare policies that differ greatly from those in the USA, including, for example, home ownership policies in Singapore, environmental protection policies in Denmark, and work-related policies in Sweden and Switzerland.

Similarly, the large international GLOBE study relates societal values to measures of a country's competitiveness and other economic factors (House et al., 2004). In addition, Rifkin (2004) makes a conceptual argument that Europe's community model of society, business and citizenship represents a holistic approach that is needed in the 21st-century global economy. Thus, the linkage between societal values and socioeconomic performance seems to be important to some scholars, but interest in this relationship is not widely shared within the management discipline. Research published in US management journals during the 1960s and 1970s, for example, often reported corporate achievements in terms of both their economic performance and their performance on measures of social welfare, whereas research published in the past two decades focuses primarily on economic factors (Walsh et al., 2003).

In conclusion, we are arguing, first, for more research that continues to sort out the key relationships among macro social and economic variables and then determines how they affect managerial values and behaviors at the level of the firm. A useful framework in this regard is that of Agle and Caldwell (1999), who, in their review of the values literature, classify values according to five levels of analysis: individual, organizational, institutional, societal and global. They note that empirical research on relationships between organizational values and values at higher levels of analysis is sparse. Given the urgency of the problem, as well as the long time frames required to make changes, we also recommend a focused research effort based heavily on theory building using currently available data.

Of course, it is not clear that simply knowing that societal and managerial values and behaviors affect a country's ability to innovate would change the thinking of either US governmental institutions or firms. Nevertheless, it could be a starting point for a broad, informed discussion of alternative futures – a discussion that combines free markets, free firms and values supportive of the trusting relationships and equitable conditions essential to knowledge sharing and the innovation process.

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