Institutionalization of Academic Finance

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Abstract

By utilizing Foucauldian theoretical and methodological framework this thesis studies the institutionalization of academic finance. Specifically, this thesis proposes an approach to the study of institutions through analysis of its promulgated subject position and sees institutionalization as the process through which power relations are actualized.

Utilizing archival resources to understand the institutionalization of institutional discourse of academic finance during its transformative phase (1940s-1970s), I argue that institutions create its subject positions through its Space, Text and Practice facets. Space, as defined in this thesis, represents the facet of institutional discourse through which the subject is individualized and is rendered examinable for his Practice against the Text. Where Text is defined in terms of the institutionalized norms and expectations of the institutional discourse and Practice represents the conduct of the subject within the Space of the institution.

Through studying the history of business schools, its theories and the modes of existence of the institutional discourse of academic finance, the thesis argues that current Space, Text and Practice of finance was made possible through the emergence of discourse of scienticism, the world-view of philanthropic foundations, access to and availability of large data, prestige of market, the overwhelming majority of economists in the faculty of business schools and through techniques of self-formation and mobilization of resources and efforts.

I would like to dedicate this thesis to my Father, Qavi Ullah, who left me during my PhD and my daughter, Aiza Atif, whom I have yet to meet in person.

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Chapter 1: Introduction

1.1 Motivation and Overview

On the 23rd of December 1999 the *Sharia* Appellate Bench of the Supreme Court of Pakistan issued an unprecedented 1,100 page ruling that outlawed any and all forms of interest present in the economy of Pakistan. The ruling, through a series of references to the *Quran* and *Hadith*[1], argued that the practice of interest is prohibited in Islam and being an Islamic country it was unacceptable for the country to continue with this. Almost 13 years have passed and the country has yet to adopt an interest free financial system.[2]

My anxiety with the literature of finance started whenever I would enter a classroom as a student and later on as a lecturer. Despite having the belief that interest is prohibited I was exposed to finance literature that dealt with interest. Not only the University of Peshawar, but all public and private sector universities in Pakistan, offer courses in economics and finance that use interest-based calculations and theories. For myself, along with a large segment of students and faculty in these universities, despite having a belief that interest is *haram* in our private and public lives, once we enter the domain of academic finance we teach and research interest-based financial theories and systems. The puzzle for me is to understand that despite the ostensible tension in existence of our identity as Muslims and our role as finance teachers, the faculty and students in Pakistan disseminate the *true* and

[1] Acts, sayings and guidance provided by Prophet Muhammad (PBUH)

[2] This is not to undermine steps already taken towards phasing out interest from the economy, e.g. issuance of Islamic Bank licences, State Bank of Pakistan efforts towards promoting research and training in Islamic Banking and other initiatives towards capacity building. However, it is generally agreed that there is still a lot to be done towards transition from an interest-based to an Islamic economy.

scientifically proven literature of finance. This seeming conflict in personal and student/teacher life led me to ask two questions about my conduct.

The first question is "Why I act when I act" (referred to as *Why* from here onwards). An answer to this question was easy to find from a simple Google Scholar search and landed me with a tentative conclusion of myself as an institutionalized and/or normalized self. The institutionalized self for me is a person who carries out different identities in different conditions. For example, in the case above, one being an out-of-classroom person, where in the name of God, I feel it is appropriate to have discussions that discourage interest. In contrast, in the other identity as an in-the-classroom person, where in the name of *knowledge* and *science*, interest becomes a natural phenomenon which exists throughout academic finance.

Researchers suggest that this separation of identities enables me to *neutralize* the encounter and practice the conflicting roles (see for example the discussion by Ibarra-Colado, Clegg, Rhodes, & Kornberger, 2006). In other words, an answer to *Why* is that academic finance is an institution and this institution guides my pattern of actions in a pre-defined way (see for example Jepperson, 1991). Institutions achieve their authority over our actions through the promulgating a conviction that they have undergone a long and consistent struggle to reach their present form and the guidance they provide is the best possible of the available alternatives.[3] Thus the guided actions need to be taken-for-granted, and an inability to do so is wastage of time that can be equated to "reinventing the wheel".

These convictions arise out of the reassurances derived from, as well as being fuelled by, exposure to a continuous rhetoric that explains the rise and fall of institutions. This

[3] A sort of evolutionary perspective on growth which results in a pre-supposition that only the fittest has survived.

rhetoric conveys strong messages. for example, in their book, *Research methods and methodology in finance and accounting*, Ryan, Scapens and Theobald explain that behind the general acceptance of accounting and finance lies its claims to scientific superiority often associated with arguments like "appropriate standards of scientific enquiry are applied to social issues rather than natural phenomenon" (2002, p. 9). The common perception about an academic field is that it has a history of evolution facilitated by technological advancements and scientifically proven methods supporting the claims it promulgates. When such claims are translated into the practice of teaching/learning it immunizes them from "unscientific" critiques such as those made by religion and cultures.

The second question that I asked myself was, "How academic finance came to be the way it is" (referred to as *How* from here onwards). Institutional theory suggests that institutions are created, maintained and disrupted through the process of institutionalization (DiMaggio, 1988, 1991; Lawrence & Suddaby, 2006; Lounsbury & Boxenbaum, 2013). This process is a debated construct and is viewed from two major perspectives of power i.e. power which can be held (sovereign power) and power which is dispersed in practices (power/knowledge) (see for example Clegg, Courpasson, & Phillips, 2006). For example, from a sovereign power perspective, one can argue that I teach interest-based financial theories because it is part of the course and I am answerable to the course coordinator and university for delivering the course content. This argument of working under the powers originating from the organization thus suggests that I act because I am power-less and as such I have to act when I act. However, from a power/knowledge perspective, one can argue that power resides in relations originating from discourses (such as the discourse of productive worker, responsible citizenship, good teacher and good student etc.) that manifest into actions through the process of truth creation e.g. the true knowledge of finance. Put more simply, under this approach to power, I act because I have to keep up with the expectations of being a

productive member of society and I have to act as a good teacher and good citizen because it is my duty to disseminate the true knowledge of finance.

The answer to *How* was not as easy to find as was the case with the question *Why*. I came across some research that discussed the history of academic finance, its transformations and development (see for example Ardalan, 2008; Baskin & Miranti, 1997; MacKenzie, 2006; Whitley, 1986b), but none of these were able to answer the question from an institutional or power perspective.

This thesis, therefore, offers an answer to the question *How* and seeks to study the process of institutionalization of academic finance. In answering the question *How*, this thesis traces the history of academic finance and offers an answer to some of the fundamental questions regarding its subject matter. My emphasis in this study will be on the contribution of finance academics in solidifying the knowledge from the 1940s onwards. My aim is to understand how claims to truth in academic fields are created that present themselves as the only true reflection of the world around us. In particular, I am attempting to understand how certain utterances and practices become taken-for-granted, and their authority can only be challenged if (and only if) another already proven theory is introduced to replace it.[4] Through this study of the *How* of academic finance, this thesis also challenges the perceptions about academic fields as scientifically developed and in turn open up the field for critical inquiry.

Besides the history of academic finance, in finding an answer to *How*, this thesis also looks at the current methods of studying institutionalization. In the process, I offer an alternative perspective to the established ways of studying institutionalization.

[4] A contestation by Eugene Fama on the utility and usability of Efficient Market Hypothesis was reproduced by Frankfurter (2007, p. ix). According to him "Fama (1998) argues that the EMH cannot even be criticized until and unless a better and more complete paradigm is proposed to replace it".

1.2 Academic Finance: An Overview of its Present

> *"Once upon a time a group of congenial people got together (at a coffee house, besides a curb, or under a buttonwood tree in different versions of the story) for a game. They each paid a bit of money for tokens and began to play. The game turned out to be especially interesting and exciting, and it attracted passers-by, who asked to join in. They were allowed to do so, but their tokens were a little more expensive than the original tokens because the game had become so desirable. This raised the value of all the tokens in the game.*
>
> *There was no guarantee that anyone in the game would be a winner, but with new players steadily boosting the value of tokens, everyone could rationally expect to come out ahead in the long-run. Players could still lose all of their tokens, and if forced out of the game for one reason or another, could end up cashing in their tokens for less than they paid for them originally. But as a few new players were always being attracted to the game, and as not too many players cashed in tokens to make purchases, the game proceeded happily along, with everyone enjoying the thrill of competition and the prestige of increasingly valuable stacks of tokens.*
>
> *As it grew, the game attracted journalists and scholars, responding to what had become an insatiable demand of players for more information regarding the game. Government officials also took a keen interest, since such a popular game involving vast sums of tokens had to be regulated for protection of its participants. Eventually, there were few in society whose lives were not touched by the game in one way or another, and all agreed that the game was indeed a grave matter."*
>
> (McGoun, 1997, p. 97)

The story above, narrated by McGoun (1997) in his paper on *hyper-real finance*, is depicted by the author to represent the rise of finance and its acceptance in society. If we are to accept the author's claim, the arguments presented in this thesis can be located in the third paragraph of the story above, where the *game* has already begun to show its importance in the societal structure and scholars gather around to understand the complexity and present their

analysis on it. As such, the thesis discusses just one part of the story and diverges away from the rise and practice of finance towards a study the academic side of finance.[5]

It is generally argued that academic finance appeared as an independent field of study in the early 1900s and witnessed a profound change in its disciplinary boundaries during the 1950s and 1960s. In this section, I will present a brief review of academic finance. This review will be expanded further throughout the remainder of the thesis. Here, I will provide a short review of the earlier work about the history of finance and point to a few areas where my analysis distinguishes itself from the earlier work.

Through a study of the literature I was able to identify three distinct approaches under which the history of academic finance has been narrated to us. The first group consists of evolutionary narrators who are mainly from the mainstream academic finance. This group locates the current state of academic finance as the result of a long struggle towards better approaches, and with the passage of time new technologies and improved data recording and computational capabilities helped advancement in knowledge creation. Evolutionary narrators a priori assume a nucleus that can be identified as finance, and thus look at the changes occurring around that with unproblematic reference to the internal and external events (see for example the assessment of approaches to history by P. Miller & Napier, 1993). Such narrations seek to understand events taking place centuries ago and interpret them in the light of present day knowledge.

For example, Baskin and Miranti (1997) state that financial activities such as commerce, private ownership and financing were *rationalised* by the Sumerians and Babylonians some 5000 years ago and the knowledge was *further developed* and exported by

[5] I want to clarify that the practice and academic "sides" of finance cannot be separated from each other. Academic finance, one can argue, is closely related to (and has a strong connection to) the practice of finance as is evident from a large amount of literature concerning the performativity of finance.

Greeks and Romans during Alexander and Cesar' rule. The same knowledge was further *refined* by the efforts of Europeans during the economic revival in the later middle-ages. This group of narrators, represented here by Baskin and Miranti (1997), seek to evaluate and interpret the events utilising current vocabulary and boundaries of knowledge. In other words, these narratives try superimposing current understandings over past events. These narrations assume that what we are able to see now was able to be seen in ancient times in exactly the same way.

Criticising evolutionary approaches, Foucault (1970, pp. 127-128) writes that:

> *"Historians want to write the history of Biology in the eighteenth century; but they do not realize that Biology did not exist then, and that the pattern of knowledge that has been familiar to us for a hundred and fifty years is not valid for a previous period. And that if Biology was unknown, there was a very simple reason for it; that life itself did not exist. All that existed was living beings, which were viewed through a grid of knowledge constituted by natural history*" (Foucault, 1970).

In other words, Foucault argues that these approaches superimpose current understandings over past events with unproblematic access to present day knowledge. The unproblematic access to present day knowledge allows historians to identify a core institution (e.g. financial accounting) and situate changes around them in chronological (or otherwise) order (P. Miller & Napier, 1993).

Evolutionary approaches contradict Foucault's argument that we only see something when we have the vocabulary to identify the phenomenon. The evolutionary assumption is that institutions and practices always have a clear direction towards their aim and to reach their current state they have the ability to overcome obstacles that they faced during their evolution (Hull, 1979; Littleton, 1933). Thus, in these approaches it might be tempting to describe the actions of Babylonians and Sumerians as the practices of corporate finance based on current knowledge, but this fails to provide a historical account based on the events happening at the time. In essence, an evolutionary approach seeks to fix the knowledge base

to a core subject matter [such as finance] and situate changes around them in chronological order. Miller and Napier (1993), while commenting on this approach, argue that "... placing change at the heart of the history of accounting only reinstates the perception that while the subject matter and methods of accounting may mutate in response to external changes there is nonetheless an essential core that can continue to be identified as *accounting*" (pp. 632, emphasis in original).

These narrations provide us with uncritical *images* of history where technological advancements are depicted as the essence of change. These are legend-like narratives which seek to overturn and undermine any alternative explanations, and provide us with a view that the changes made are a-political and a natural result of advancements. For example, consider the following quote from Weston:

> *"… in recent years, however, the nature of research in finance has changed. In a world of 'technical dynamism' and 'rapid change', with the 'emergence of powerful new tools' of analysis and 'new methodologies' the nature of new financial research has been fundamentally altered"* (1967, pp. 618, emphasis added).

In other words, for Weston (1967) the changes occurring in the institution of finance were a direct result of technological advancement and the application of statistical/scientific methodologies towards the problems of finance.

By following these narrations we fail to recognise, and at the same time undermine, the opposition that may have existed during the struggle for changes. For example, roughly at the same period when the paper from Weston (1967) was published a colleague of his, Durand (1968), made these remarks about the changes:

> *"… they seem to be more interested in demonstrating their mathematical prowess than in solving 'genuine problems'; often they seem to be playing 'mathematical games' ... some of these same young men spent so much time studying statistical theory and formal methodology that they learned too little practical data handling, sources of data, or the need for critical appraisal of data. When they build a model, they often become so*

> *infatuated with the product that they will plunge in any data, no matter how inappropriate, just to obtain numerical results"* (pp. 848, emphasis added).

In other words, for Durand (1968) the changes taking place in the institution of finance were not fuelled by technological advancement alone but also included the intentional efforts of the faculty of finance. By ignoring the politics of change, evolutionary accounts end up producing unproblematic accounts of history, and we end up studying changes in terms of text-book content (Norgaard, 1981; Solomon, 1966), journal contributions (Kavesh, Weston, & Sauvain, 1970), and the rise of associations (Sweetser & Petry, 1981) as if these represent an outcome of the *natural* events that took place in the narrations of their history. Their concern is to show and help further normalize the current content of academic finance.

The second group consists of scholars who intend to use the history of finance to challenge the legitimacy of its theories and models. Their historical accounts are intended to produce alternative explanations of the phenomena studied by mainstream finance. They base their arguments on paradigmatic unity in mainstream finance and as such argue as to how a diversification into a different approach may result in the advancement and obtaining a better understanding of knowledge (Frankfurter, 2007; Frankfurter et al., 1994; Frankfurter & McGoun, 1996). This is unlike our first group of narrators who perceive the current understanding as the *ultimate* advancement already achieved through consensus and advancements. Within this second group we can locate most of the work carried out under the banner of behavioural finance. These narrators and their followers assume that there exist alternative truths which cannot be found if one continues to follow the current methods and methodologies as such they argue for including alternative methodologies. For example, while commenting on the usage and usability of data in mainstream academic finance, Keasey and Hudson (2007) criticise the current approaches by saying:

> *"… their (mainstream finance academics) debates and models are internally consistent but they need feeding with 'new facts' if the debate and subject is to be kept alive. Rather than attempting to see the actions of individuals at first hand or indeed engage in debate with those individuals who are actually involved in financial decisions, the community prefers to stay safe in its 'House Without Windows' and take data feeds from the outside world. These data feeds are interpreted from the perspective of their agreed research paradigm and any facts which are seen as anomalies give rise to a whole new spate of activity to see how they be reconciled with the existing core of theory"* (Keasey & Hudson, 2007, pp. 933, emphasis in original).

Put differently, the agenda of these narrators is to diversify the existing knowledge base of academic finance and include alternative explanations in understanding the phenomenon at hand. As described in Keasey and Hudson (2007) quote above, the criticism revolves around the paradigmatic unity and isolation of financial models from the alternative methodologies and perspectives. Here still, the agenda of the narrators and commentators on history remain similar to evolutionary narrators. One assumption appears to be that there is an ultimate truth out there in the world, and by following the right techniques and methodologies in research one can reach that point where it can be revealed (Lister, 1978).

In short, the two groups of narrators discussed above differ from each other mainly on the direction of the knowledge creation process. For scholars belonging to behavioural finance, the subject matter needs to be reconsidered and the future research should include diversifying opinions to better understand the phenomenon. On the other hand, mainstream finance scholars are satisfied with the direction of knowledge and their struggle remains towards the deeper understanding of the phenomenon.

Critical thinking about finance, the third approach through which the history of finance is narrated, is not new and there has always been questioning about its understanding of the market whenever something has gone wrong. We can witness a rise in attempts to critique it as and when the opportunity presented itself – be it the Depression of 1929, the 1970 stock market crash, the dotcom bubble, the Enron or the WorldCom fiasco, or very

recently the sub-prime mortgage crisis and credit crunch. These critiques on finance lead us to the last remaining version of narrated histories. This third group of historians consist of *non-aligned* commentators on the history of academic finance, and their purpose remains to criticise the current understanding of finance but study it through a different lens than behavioural finance followers. They seek to invoke the historicity of the different taken-for-granted constructs in advocating and researching financial economics and to delegitimize the role of these ideas. It is here that I intend to situate this thesis as well, and I will be discussing this third group in relatively great detail here. This group will be used in the coming chapters to understand the present of finance. The most prominent among this group of historians of finance are those that identify themselves under the banner of "Social Studies of Finance". This is a reference point for research that encompasses multi-disciplinary work on the themes of money and finance. It draws on different research and disciplinary traditions to analyse a range of topics including the historicity of finance ideas, performativity and the sociology of knowledge (see for example the social studies of finance agendas proposed by Pareda (2001), De Goede (2005a) and MacKenzie (2009) and a blog site (Socializing finance, 2011)).

A key work belonging to critical narrations is Mackenzie's (2006) study of the rise of modern finance theory and its performativity in the financial market. He uses the term "engine" for the theoretical innovation taking place in the academic field that functions as a "driving force" in the markets as opposed to reflecting upon it. In his study of the institutionalization of academic finance, he locates the essence of the change from descriptive to abstract theoretical knowledge in finance in the hiring of economists by business schools. For him, the enabling environment was made possible through the fact that the business schools (and not economics departments) provided the academic ground for financial economics (MacKenzie, 2006, p. 5). This resulted in high salaries for the faculty, and an institutional separation of the two fields (MacKenzie, 2006). For MacKenzie, this

institutional break-up between mainstream economics and market studies at the business schools enabled economists to work on the market, which was otherwise considered an inferior research scholarship due to its descriptive nature and lack of theoretical understanding (MacKenzie, 2006). MacKenzie (2006) suggests that these new theories and methodologies were able to reproduce themselves because newcomers to the field were to study under the same faculty that developed it. He further argues that although the new paradigmatic shift was shaping academic finance, it was still a long way from having any impact on the practice of finance, specifically because it undermined the work of practitioners (mostly based on Chartism[6] and fundamental analysis[7]). The practitioners of the time came under severe criticism from academics who argued that their knowledge and actions are irrelevant since all securities in the market are always correctly priced according to the available information.[8] According to Mackenzie (2006), the heavily debated and segmented divide between the theory and practice of finance was only to be overcome when the relative stability of the stock market during the 1950s and early 1960s came to an end. In the later part of the 1960s, out-of-control inflation coupled with the oil embargo on the West and declining profitability in the corporate sector resulted in a stock market crash. It was during this period that investors seeking to legitimise their actions turned towards sophisticated models of academic finance. Ideas and theories that had been seen as an "enemy" of their

[6] Chartism is the general name given to charting securities prices and looking for trends in price changes based on those charts.

[7] Fundamental analysis involves seeking out under-priced securities by looking at the fundamental traits of a company such profitability, price/earnings ratio, dividend yield, debt to equity ratio and other income statement and balance sheet analyses.

[8] This a basic outcome of EMH and, according to EMH prevailing prices in the market, will always reflect all available information that includes past trends and fundamental analysis. This therefore rejects the idea that an investor, by looking at a chart or doing fundamental analysis, will be able to identify and make use of any profit opportunities by finding under/overpriced securities.

intellect and abilities by practitioners were increasingly seen as the legitimising force of their actions.

Another important scholar who studies the history and methodological alignments of finance is Ardalan (2002, 2003a, 2003b, 2004, 2008). In his research he presents us with a paradigmatic view on mainstream academic finance on epistemological and ontological grounds. He starts off his analysis by describing the four paradigmatic views of the world which he defines as functionalist, interpretive, radical structuralist and radical humanist. He argues that each paradigm uses its own ontological and epistemological views, so therefore they interpret and predict results differently from each other. Ardalan (2003b) cautions against using understanding derived from one paradigm to prove or disprove a theory from another. According to him, academic finance is dominated by the functionalist paradigm and there are some sources which can be categorised into the interpretive paradigm. He concludes that radical structuralist and radical humanist research paradigms are almost non-existent in academic finance and a few attempts to cover the two paradigms are from outside of the finance community (Ardalan, 2008, pp. 16-20). Using Kuhn's (1986) puzzle-solving metaphor, he analyses a number of research publications and books on the language and methodology of finance by studying its theoretical understandings of the world using data from journal publications, conference content and PhD programmes. He suggests a multi-paradigmatic approach to the study of finance by saying that there is "a serious conscious thinking about the social philosophy upon which finance is based and of the alternative avenues for development". For him, the knowledge of the four paradigms is of paramount importance to any scientist because the process of learning about a favoured paradigm is also the process of learning what that paradigm is not. The knowledge of paradigms makes scientists aware of the boundaries within which they approach their subject. Each of the four

paradigms implies a different way of social theorising in general and finance in particular (Ardalan, 2003a, p. 736).

Although Ardalan's analysis is a good way of understanding the sources and uses of theoretical models of academic finance to understand its institutionalization, it fell short of studying how such dominance of one paradigm came to be institutionalized. The gap identified in Ardalan's research can be somewhat filled by looking at Whitley's (1986b) study about the transformation of academic finance into financial economics. Whitley (1986) argues that finance has been transformed from its earlier arrangements of descriptive research dealing with day-to-day problems faced by corporations with topics like dividend policies, pension funding, central bank policy, taxation, insurance and accounting, to abstract theoretical knowledge dealing with theory creation and generalizability of outcome. According to him, during the 1960s the nature of finance scholarships changed dramatically and in the 1970s a new form of finance knowledge had been institutionalized, which had little to do with the practical problems faced by corporations, and that was abstract and theoretical in its nature. Whitley (1986) studied the role of internal and external factors in the field of academic finance and proposed an understanding based on the metaphor of 'partitioned bureaucracy' towards the transformation of academic finance into financial economics. Whitley (1986) defines partitioned bureaucracy as "highly rule-governed scientific fields which manifest a considerable degree of technical task uncertainty in dealing with empirical phenomena at the same time as a much greater degree of control over analytical work and objects ... the areas of research with high levels of uncertainty and ambiguity are partitioned from those where task outcomes are more stable and predictable" (p. 174). He also suggests that the high prestige of science and scienticism inspired the belief that "economic and social affairs could be 'managed' through the use of expert advice based on scientific research and that the appropriate way of conducting such research was exemplified by the use of

mathematical procedures and models in economics" (Whitley, 1986b, pp. 171, emphasis in original). He suggests that a new-founded belief supported by the relative economic stability in the 1950s and 1960s, coupled with financial support from philanthropic organisations such as the Carnegie and Ford Foundations, encouraged universities to adopt curriculums that sought to "increase the supply of scientifically trained faculty and acquire more economists and behavioural scientists" (Whitley, 1986b, p. 172). While commenting on expansion in other business-related fields such as operational research, Whitley (1986) raises an important question regarding the institutionalization of academic finance as financial economics: "How then has the study of finance become more theoretically restricted and focussed during this period of expansion?" (p. 178). He answers this question by suggesting that it was made possible by "control over intellectual standards and goals in the hands of theoreticians and continued external support for the field" (p. 178). For him, the institutionalization of academic finance into a distinctively new field of financial economics occurred due to the success of scienticism, the rise in demand for economists to teach the expanding demand for MBAs, the advancement in technologies enabling large data processing, and through controlling the theoretical grounds by not only exercising strong control over the academic requirements for undergraduate and postgraduate studies, but also through "separating models of ideal systems from empirical studies of capital markets and insisting on the primacy of the former" (Whitley, 1986b, p. 188).

Another important scholar who traces the history of academic finance in its broad context is Khurana (2007). Although not studying the field of finance directly, Khurana (2007) provides clues towards the role of economists in supporting the transformation that has occurred in academic finance. In studying the history of business schools, Khurana (2007) argued that success for America and its allies brought much needed legitimacy to mass production through large corporations to a point where they were "link*(ing)* survival of

liberty and democracy to the nation's ability to coordinate and plan the activities of organizations" (Khurana, 2007, p. 201). This legitimacy of large-scale production and the success of mathematics in dealing with military problems (logistics, fire control and pattern bombing), and advancement in computational effectiveness and efficiency, encouraged the use of statistical logic in tackling business and organisational problems (Khurana, 2007; Whitley, 1984, 1986b). He also suggests that due to government involvement in actively regulating the business environment in the United States of America (USA, onwards), corporations seeking to expand their operations were forced to rely on mergers and acquisitions and hence the value of specific industry knowledge was diminishing. In the post-war era, according to Khurana (2007), the government in order to avoid mass unemployment gave out many scholarships for higher education and intervened with the courses offered at universities in order to ensure proper utilization of the funding provided. Like Whitley (1986), Khurana (2007) argues that philanthropic organisations such as the Ford and Carnegie Foundations were central to the changes occurring during the period. One of the central conditions for obtaining funding from these foundations was the structural requirement for increased numbers of faculty with doctorates and the stipulation that both faculty and students be trained extensively in quantitative methods and behavioural sciences (Khurana, 2007; Kuipers, 2008; Whitley, 1986b). These changes, argues Khurana (2007), helped in delegitimizing the earlier descriptive version of finance and helped shape a new finance whose goal was to produce "trained professional investors and financial engineers, especially in the area of investment banking, private equity and hedge funds" (Khurana, 2007, p. 311).

The works discussed above (when read together) provide a comprehensive account of the history of academic finance, but at the same time they lack a study of the relations of power that produce such effects. These authors have based their analysis on power relations

revolving around agency-centric and conscious action by members of one group or another. They do refer to the marginalisation and dominance of one over the other, but fail to introduce us to how finance came into being as a "select" scientific knowledge that was a "specialisation", and as such required a certain degree of understanding before being debated.

A historical analysis of finance (as practice), which documents the ability of discourse and rhetoric in marginalising one idea over the other, can be found in the works of De Goede (2001, 2005b). Unlike the literature reviewed earlier, the analysis of De Geode (2001, 2005b) questions the objective and autonomous nature of practices of finance. She discloses the contingent historical decisions that helped in de-politicising finance practices by being attentive to insecurities and contingencies existing in history and emphasises the role of discourse in the formation of the historical reality of the body of finance.

De Goede (2001), building on the work of Foucault, rejects agency-centric power and suggests looking at the sources of truth creation via the concept of power/knowledge. For example, while commenting on the social acceptance of "economic rational thinking" she says "the development of American consumer society in the 1920s and 1930s went hand-in-hand with popular education about "spending well". She discusses the role of the famous quote of an economist in 1912 that says "to spend money is easy, but to spend well is hard." Education in spending well consisted of magazine articles, essays and pamphlets targeted mainly at poor and middle-class housewives. Under the programme American immigrants received instructions on financial responsibility, shopping, banking and budgeting during programmes in citizenship training upon arrival in the USA (De Goede, 2001, p. 47). She documents how this and other struggles about finance rose into general acceptance and concludes that "financial rationality is an exclusionary discourse – a discourse which exists through, historically and continually, excluding that which it deems external to its domain" (De Goede, 2001, p. 254). She reaches this conclusion by utilizing a variety of discursive

tools that incorporate gendered representations of technologies, and appeals to human and divine nature to "religious, cultural and moral histories" (De Goede, 2001, p. 253). She documents the process of truth creation in financial rationality which indicates that current finance practices and rationalities are neither linear nor frictionless constructs, but were made possible by the process of truth creation. She refuses to accept concepts such as value, credit and representation as self-explanatory and unveils how these came into acceptance through different discursive techniques. She documents how gendered discourse was invoked to gain moral legitimacy for credit by arguing that "the use of credit was morally and politically legitimized through the discursive juxtaposing of the English gentleman and the irrational, unpredictable lady credit, who embodied the uncertain and unpredictable future" (De Goede, 2001, p. 27). She shows how this discourse still "becomes apparent in times of financial crisis when the integrity of the system needs to be reaffirmed by the retroactive identification of financial irregularities" (De Goede, 2001, p. 99). In her next chapter, she analyses the process of the legitimacy of trading in financial markets by documenting the historical discourse that helped differentiate between gambling and trading in stock via articulating risks associated with stock as calculable. She highlights the role of regulations (specifically the nineteenth century "bucket shop" debate),[9] and how these regulations coupled with the rise of statistics as a scientific field that could determine the exact risk, helped shape the conceptual distinction between gambling and finance. De Goede shows the relevance of discourse in the construction of the financial sphere and argues that instead of being a natural outcome "financial rationality is a discourse of entitlement; a discourse that renders possible the creation of credit, the channelling of wealth and the making of profits" (De Goede, 2001, p.

[9] Bucket shop is defined as "an establishment, nominally for the transaction of a stock exchange business, or business of similar character, but really for the registration of bets, or wagers, usually for small amounts, on the rise or fall of the prices of stocks, grain, oil, etc., there being no transfer or delivery of the stock or commodities nominally dealt in."

254). Through exposing such contingencies in its construction she aims to open up venues for re-politicizing the sphere of economics.

This thesis complements the work of De Goede (2001, 2005b) and shares the aims of her project, which is to re-politicize the domain of financial practices and rationality. While she has been attentive to the practice side of finance, my emphasis here is on the normalization of theories in academic finance by situating its relevance in the regulatory and practice side of finance.

Building on the work of Khurana (2007), Whitley (1986b) and MacKenzie (MacKenzie, 2006, 2009), I document how changes in the academic field of finance helped to shape its current contents. The agenda for this thesis is to show that neither finance literature, nor its practice, is the result of centuries of efforts towards the betterment of society but to show that its current subject matter has been made possible through politics of discourse where alternatives were marginalized and penalized.

1.3 Structure of the Thesis

The thesis is structured to offer an answer to *Why* and *How* of academic finance. The answer to first question *Why* lies in Chapter Two, Three, and Eight, while the answer to second question is outlined in Chapter Five, Six and Seven. Chapter Four provides the link between the *Why* and *How*. The outline for the individual chapters is as follows.

Chapter One introduces the overall objectives of the thesis and explores the different approaches through which the history of finance has been narrated. Chapter Two provides a short review of institutional theory and discusses the two *main* approaches towards understanding institutionalization. Chapter Three is a brief introduction to literature on power and offers an analysis of the two approaches to power, i.e. sovereign power and

power/knowledge. Chapter Four presents the theoretical framework for the study and introduces the methodology and method adopted for understanding institutionalization of academic finance. It describes the data sources and provides a broader understanding of the research method adopted for this study i.e. Space, Text and Practice. Chapter Five discusses the Space, Text and Practice relations that helped institutionalized business schools that provided Space for the new finance. Chapter Six is a case study of institutionalization of Efficient Market Hypothesis. It broadens the perspective discussed in the Chapter Five and discusses how the newly institutionalized space provided an enabling environment for the theoretical framework of finance. Chapter Seven discusses how space and text found their place in the practice of finance. Chapter Eight discusses the outcome of the study and provides direction for future research that can enhance both the methodology adopted in this thesis as well as our understanding of practices of institutionalization.

Chapter 2: Literature Review I: Institutional Theory

I started this thesis with a discussion about my concern with the literature of finance and how the search for an answer led me to ask two questions about my conduct. This chapter is the first of two that provides an in-depth understanding of the literature relevant to these questions. The current chapter provides an understanding of the literature about institutionalization i.e. one of the sources for answering the question *Why*. The answer in this case is located from institutional perspective, which suggests that our behaviour is directed by institutional forces that define for us the acceptable response to a given situation.

Institutional theory has a rich history in economics, political science, sociology and organizational studies (Scott, 1995). According to Scott (1995), its adoption was evident in the works of mid and late nineteenth century scholars such as Veblen, Mitchell, Burgess, Durkheim and Weber. Its literature is both varied and extensive. While recognising the importance of the different theoretical perspectives within institutional theory, for the sake of manageability, I will be restricting my review of the literature to that related to organizational studies only.

Within the field of organizational studies, institutional theory adoption has seen an evident increase since the work of Berger and Lukmann (1967), Silverman (1971), Meyer and Rowan (1977), and Zucker (1977). Institutional theory adapts to its environment and critique, and thereby it has undergone major theoretical realignments and has incorporated different perspectives within its boundaries (detailed reviews of its progress can be found in Greenwood, Oliver, Suddaby, & Sahlin, 2008; Powell & DiMaggio, 1991; Scott, 1987, 1995, 2001, 2008a, 2008b; Tolbert & Zucker, 1996). Due to this adaptability, one can argue that institutional theory is not a single theoretical approach but a collection of multi-paradigmatic perspectives under the term ‘institutional theory’. These different theoretical perspectives,

which I will refer to as strands within institutional theory, according to Scott are evidence of progress towards the maturity of institutional theory (2008a). I will, in the pages below, provide a short review of these developments and discuss some of the dissatisfaction that has been shown by researchers such as Clegg (2010), Suddaby (2010) and Cooper et. al (2008).

2.1 Institutional Theory: A Short Review

It is generally argued that neo-institutional theory made its way into organizational theory through the work of Zucker (1977), and Meyer and Rowan (1977), who argued that organizations are culturally created through interpretations based on shared beliefs and expectations between actors. Meyer and Rowan (1977) argued that, contrary to the common perception, organizational structures are influenced by institutional rules that originate from the "wider environment" they are exposed to. They argued that organizations, out of pressure to gain legitimacy, conform to institutionalized myths which are essential both for their success and survival. Zucker (1977), describing institutions as the "establishment of relative permanence" (Zucker, 1977, p. 726 quoting Hughes, 1936 p. 180), identified three stages of institutionalization that can contribute towards their degree of resistance to change. She argued that the more an institutional element is institutionalized, the more its ability to persist. This strand of work stood in contrast to some of the earlier deterministic theories of organizations that emphasised rationality and resource dependence (Scott, 2008a). Zucker (1987), similarly, argues that "organizations are influenced by normative pressures, sometimes arising from external sources such as the state, other times arising from within the organization itself" (Zucker, 1987, p. 443). Organizations, consisting of institutional elements, to gain legitimacy would either imitate or mimic already established institutional rules to each seeks legitimacy (Meyer & Rowan, 1977; Zucker, 1987).

DiMaggio and Powell (1983) built on these ideas and introduced the concept of organizational fields. They argued "that the causes of bureaucratization and rationalization have changed" (p. 147) and "once a set of organizations emerge as a field, a paradox arises: rational actors make their organizations increasingly similar as they try to change them" (p. 147). They identified three mechanisms (namely coercive, mimetic or normative pressures) through which institutions within a field experience isomorphic[10] changes (p. 150). For them institutionalization *occurs* out of coercive, mimetic or normative pressures within the field as an organization seek legitimacy.[11] A similar argument was put forward by Scott and Meyer (1991). Scott and Meyer (1991) introduced institutional analysis based on societal sectors, which they defined as "all organizations within a society supplying a given type of product or service together with their organizational sets: suppliers, financiers, regulators and so forth" (Scott & Meyer, 1991, p. 108). They argued that organizations within a societal sector such as medical care will tend to be the same, while at the same time they will be different in other sectors such as civil aeronautics "reflecting not only differences in political processes and economic mechanisms but organizational arrangements" (Scott & Meyer, 1991, p. 137). In both these instances, for "organizational fields" (DiMaggio & Powell, 1983) and "societal sectors" (Scott & Meyer, 1991) the tendency was to study isomorphic institutionalization. In other words, both tried to study institutions as if they will become similar over time due to the regulatory environment or "coercive, mimetic and normative pressures". Isomorphism in institutions attracted many empirical studies that dealt with the "processes by which structures, including schemas, rules, norms and routines become established as authoritative guidelines" (Scott, 2005, p. 460). These studies viewed institutionalization as happening in

[10] The tendency for schemes, rules and norms to become similar over time under the influence of institutions.

[11] Institutionalization was perceived to be occurring as opposed to being created through intentional efforts. This created the paradox referred to in the discussion in the later part of the chapter.

two stages: once when the initial entrants to the field, out of drive for efficiency, establish a process; and the second stage of isomorphic institutionalization, which would start when these processes are adopted by recipient organizations to gain legitimacy (Scott, 2008b).

This over-emphasis on isomorphism and *passive* institutionalization led institutional theory into a paradox. Institutional theorists were finding it hard to answer how institutions change when they restrain the behaviour and actions of the individual within its boundaries (Scott, 1995). To take an example from the recent past, if marriage as an institution existed between two people of the opposite sex, how do we end up with gay marriage? Or if the Efficient Market Hypothesis (Fama, 1970) is the guiding principle to study markets, how does a non-efficient market hypothesis (such as The Theory of Fair Market (Frankfurter, 2006) come into existence. This paradox resulted in creating frustrations among the institutional theorists and attempts were made to incorporate the role of individuals into the study of institutionalization. Powell (1991) expressed his concerns with the established structure of argument surrounding institutions by calling it "stylized version of institutional theory – a restricted institutionalism" (Powell, 1991, p. 183) and argued for theoretical diversity that will expand institutional analysis. Earlier DiMaggio (1988) had also expressed his dissatisfaction with the prevalent themes within institutional theory and argued for a change in direction of research from institutions to institutionalization. DiMaggio (1988) argued that, "institutionalization is a product of the political efforts of actors to accomplish their ends and that the success of an institutionalization project and the form that the resulting institutions takes depend on the relative power of the actors who support, oppose or otherwise strive to influence it" (DiMaggio, 1988, p. 13). DiMaggio (1988), and others such as Oliver (1992), explicitly tried to shift the influence from institutions to institutionalization and emphasised the role of the agency central to the study of institutions.

The calls for incorporating the study (and process) of institutionalization have produced a large set of studies, both theoretical and empirical. In the process, institutional theory has undergone many shifts which have been retrospectively identified as "old-institutionalism", "new-institutionalism" and "neo-institutionalism". Institutional theory has in the process developed many variants which emphasize rational choices, cultural-cognitive and normative forces (DiMaggio & Powell, 1983), institutional entrepreneurship and resource dependence (DiMaggio, 1988; Oliver, 1992, 1997), contradictions and praxis (Seo & Creed, 2002), logics and rationality (Friedland & Alford, 1991; Lounsbury, 2007, 2008; Thornton & Ocasio, 1999, 2008), networks (Lee & Hassard, 1999; Owen-Smith & Powell, 2008), discourse (Phillips, Lawrence, & Hardy, 2004) and social movements and collective actions (Hambrick & Chen, 2008; Hargrave & Van De Ven, 2006; Schneiberg & Lounsbury, 2008). In addition to the above, there have been attempts to provide a holistic analysis which tried to incorporate the characteristics from the different strands such as the work of Lawrence and Suddaby (2006) who call it 'institutional work'.

These different strands, Scott (2008b) suggests, are due to differences in institutional circumstances as well as epistemological and ontological differences between the advocates of institutional theories. Scott (2008b) views this as a sign of progress and appreciates the theoretical diversity as the "process of maturity". However, not all researchers have seen the diversity within institutional theory as desirable and this has given rise to some concerns among institutional theorists. Researchers, such as Suddaby (2010), suggest that the unproblematic access to tools of analysis from diverse methodologies have side-tracked attention from the core purpose of institutional analysis. He argues that "there is a danger that the theory has been stretched far beyond its core purpose – to understand how organizational structures and processes acquire meaning and continuity beyond their technical goals" (Suddaby, 2010, p. 14). For him, the unproblematic adoption of other "tools" such as

contingency theory have resulted in obscuring the "complex and often invisible process" (Suddaby, 2010, p. 15) that institutional theorists need to look at and diverted the attention from the main question related to study of institutions. For Suddaby (2010), institutional theorists should be on the lookout for:

> *"… the tendency for social structures and processes to acquire meaning and stability in their own right rather than as instrumental tools for the achievement of specialized ends"* (Lincoln (1995, p. 1147) quoted in Suddaby, 2010, p. 15).

In other words, Suddaby (2010) argues that because of the unproblematic theoretical diversity (and specifically reliance on quantitative data and positivist paradigm), this has harmed rather than benefitted institutional analysis. To counter this, he proposes more emphasis on establishing a single-paradigmatic analysis which should be guided by attention towards "the processes by which institutional pressures are understood" within organizations (Suddaby, 2010, p. 18).

Clegg (2010), on the other hand, also expresses discomfort with the direction of institutional theory. However, his argument behind the discomfort stands in contrast to Suddaby's (2010) presented above. He calls for incorporating power analysis into institutional theory and expresses his satisfaction with the "third generation" of institutional theorists where explicit attempts are made by theorists and researchers to incorporate the role of power and agency in the study of institutions and institutional processes (Clegg, 2010). Unlike Suddaby (2010), who proposes more attention towards the process of institutionalization by paying close attention towards sense-making within an organisation, Clegg (2010) argues for a state-centred analysis. While expressing his surprise with the

institutional theory directions, he argues for incorporating back an analysis of the notion of power as defined by critical theorists and especially Foucault.[12]

Similar to the argument of Clegg (2010), other critical management theorists have also shown dissatisfaction with the current themes of institutional theories. Notable among them is the review chapter by Cooper et al. (2008). Cooper et al. (2008) argue for a greater synthesis between institutional theory and critical theory. However, at the same time they caution us on the differences between the "institutionalized" perceptions about the two theories, where institutional theory seeks to provide a more objective knowledge and critical theory is about "freeing up" by providing alternative explanations (Cooper et al., 2008). In its essence, the argument presented by Cooper et al. (2008) implies that careful considerations need to be taken when calling for and attempting to combine the concerns of institutional theory and critical theory. Cooper et al. (2008) seek to watchfully invoke the similarities between Foucault's notion of normalization and the established conception of institutionalization within institutional theory.

While recognising that a detailed discussion of all the different strands of institutional theory is beyond the scope of this thesis I will, in the pages below, present a discussion on them by categorizing them into two groups based on their understanding of institutionalization. The first group which consists of strands such as the institutional entrepreneur (Child, Lu, & Tsai, 2007; Greenwood & Suddaby, 2006), resource dependence (Oliver, 1992, 1997), rational choice and agency (see e.g. DiMaggio, 1988; Hambrick & Chen, 2008; Hargrave & Van De Ven, 2006; Schneiberg & Lounsbury, 2008), seek to understand the process of institutionalization based on the *purposive actions* of individuals/groups. On the other hand, the second group, consisting of culture (Meyer &

[12] I will come back to the line of argument presented by Clegg (2010) in Chapter Four.

Rowan, 1977; Silverman, 1971; Zucker, 1987), isomorphic perspectives (DiMaggio & Powell, 1983; Scott & Meyer, 1991), logic (Friedland & Alford, 1991; Lounsbury, 2007; Thornton & Ocasio, 2008) and discourse and networks (Owen-Smith & Powell, 2008; Phillips et al., 2004), seeks to understand the processes of institutionalization based on the *constructed actions* of individual/groups.

For the purpose of this thesis, I define *purposive actions* as actions that are hypothesized to be taken when the individual is aware of their surrounding and has the ability to exercise independent judgement between independent constructs such as right and wrong, and efficient and inefficient practices. *Constructed actions* can be defined as actions theorized to originate from the discourses that the individual or group is exposed to while being part of a society. Constructed actions are the outcomes of these discourses that manifest into actions through everyday interactions, inter-institutional relations, locales and/or events. In other words, it is assumed the actions taken by individuals are discursively constructed via a process of sense-making originating from historically created truth creation processes, through which efficient/inefficient and good/bad become historically created constructs.

2.2 Approaches to Understanding Institutionalization

As explained earlier in the discussion, institutional theory is the umbrella term that incorporates multi-paradigmatic theoretical approaches towards studying the process of institutionalization. The pages below discuss the basics of 'institutional work' and 'institutional logic' strands within institutional theory as representative of *purposive* action and *constructed* action, respectively. These strands are argued to be the outcome of the discomfort with institutional theory and are presented as *the* answer to introduce the role of agency and power relations in the study of the processes of institutionalization. These two are

also celebrated by their proponents as having the ability to (re)incorporate power analysis into institutional studies, and are also presented as having the potential to combine the concerns about both institutional theory and critical theory (Lawrence & Suddaby, 2006; Lawrence, Suddaby, & Leca, 2011).

2.2.1 Institutional Work

Institutional work, according to Lawrence and Suddaby (2006), is a study of "the purposive action of individuals and organizations aimed at creating, maintaining and disrupting institutions" (Lawrence & Suddaby, 2006, p. 215). Lawrence et al. (2011) break the concept of institutional work into "institutional" and "work". Institutional work defines institutions through adopting the conception introduced by Jepperson (1991):

> *"… the product (intentional or otherwise) of purposive action … an organized established procedure, that reflects a set of standardized interaction sequences"* (Lawrence & Suddaby, 2006, p. 216).

In other words, institutional work sees institutions as anything (cultural or structural object) that can direct our behaviour and action based on an established guide or "chronically repeated activity sequence" (Jepperson, 1991, p. 144). Thus marriage, contract, formal organization, corporation, academic discipline, voting etc., are seen as institutions (Jepperson, 1991). Jepperson (1991) argues that an institution is anything that can arguably guide our actions and responses in a "standardized interaction sequence" (Jepperson, 1991, p. 145). Institutions, according to Jepperson (1991), are systems that should be considered as a structure that "empowers and controls" and warns us against looking at the idea of institutions as only "constraint structures". Institutionalization is the process through which institutions are attained (Jepperson, 1991). Lawrence, et al. (2011) sees this realisation process as the "work" part of the institutional work perspective. They define it as:

> *"… the efforts of individuals and collective actors to cope with, keep up with, shore up, tear down, tinker with, transform, or create a new*

> *institutional structure within which they live, work, and play, and which give them their roles, relationship, resources and routines"* (Lawrence et al., 2011, p. 53).

The notion of *work*, according to institutional work, is thus any purposive action of the individuals or groups through which they seek to maintain, create or disrupt institutions.

The proponents of institutional work see it as the synthesis of two influential sociological concepts: agency (as defined by DiMaggio, 1988; Oliver, 1992) and practice (as outlined by Bourdieu, 1977, 1993; Giddens, 1984). To answer the critics of institutional theory on its paradox, DiMaggio (1988) introduced the concept of agency relations coming into action via institutional entrepreneurship. Institutional entrepreneurship locates the process of institutionalization/de-institutionalization in the actions of individuals (for example lobbying, leadership and/or political efforts on the part individual to bring about the change). Fligstein (1997) defines institutional entrepreneurs as "actors who have social skills, that is, the ability to motivate cooperation of other actors by providing them with the common meanings and identities" (Fligstein, 1997, p. 397). In other words, institutional entrepreneurs are the ones who may either have the power to change the institution or are seeking power through changing the institutions. Fligstein (1997) defines this power to bring change in terms of social skills and lists some *strategies* through which they can be achieved.[13] Maguire, Hardy and Lawrence (2004) identify three critical activities, namely "subject position, theorization and institutionalization" (Maguire et al., 2004, p. 674) through which institutional entrepreneurship creates/changes institutions. They argue that individuals with

[13] The strategies he identifies include "direct authority, agenda setting, taking what the system gives, framing actions, wheeling and annealing, brokering, bargaining, maintaining goal-lessness and selflessness, maintaining ambiguity, aggregating interests, trying five things to get one, convincing, making others think they are in control, networking, Luke's three dimensional power etc." (Fligstein, 1997, pp. 399-402).

differential *subject positions,*[14] resulting from the legitimacy and agency in relation to other stakeholders, can enforce their *theorization* over other individuals through a process of *institutionalization*. In other words, an institutional entrepreneur by virtue of their legitimately gaining higher status (higher knowledge, organizational hierarchy or access privileges etc.) may create new institutional norms/definitions that provide shared meanings to stakeholders to stabilize/link new practices (Maguire et al., 2004). Hoffman (1999) similarly argued that actors with vested interest bring about change in institutional settings by orchestrating an institutional war that may produce new relations/functions within institutions that suits the vested interest engaged in the institutional war. Institutional entrepreneurship in its essence seeks to locate the change originating from agency relations where vested interest and its representatives create the possibilities to establish new institutional ways of doing things (Hoffman, 1999; Lawrence & Suddaby, 2006).

Oliver (1992), in her explanation of institutional paradox, maintained that the emphasis on stability in institutional theory may be overemphasised and argued that political,[15] functional[16] or social[17] pressures working through conflicting interests and power relocation change an institution.[18] According to Oliver, the change in power location, or by

[14] Defined as "A subject position in a field is a socially constructed and legitimized identity available to actors in the field" (Maguire et al., 2004, p. 658).

[15] Identified as "mounting performance crises, conflicting internal interests and increasing innovation pressures and changing external dependencies, further categorized into organizational and environmental pressures (Oliver, 1992, pp. 568-570).

[16] Identified to include changing economic utility, increasing technical specifity, increasing competition for resources, emerging events and data, further categorized into organizational and environmental factors (Oliver, 1992, pp. 571-574).

[17] Identified to include increasing social fragmentation, decreasing historical continuity, changing institutional rules and values, increasing structural disaggregation further divided into organizational and environmental factors (Oliver, 1992, pp. 574-578).

[18] The factors contribute to deinstitutionalization while being moderated by inertia and entropic characteristics of organization under study (Oliver, 1992, pp. 579-581).

intentional efforts of individuals to seek power, can destabilize the institutional way of doing things and as such materialize into change.

Lawrence and Suddaby (2006) argue that through combining the two concepts – agency and practice – in studying institutions we will be able to:

1. "Highlight the awareness, skill and reflexivity of individual and collective action" (p. 219);
2. Understand "institutions as constituted in the more and less conscious action of individual and collective actors" (p. 219);
3. Suggest that how institutions are created, maintained and disrupted while actors are conditioned by the rules and guides of the same institution (p. 220).

Institutional work strands seek to define the "institutional life cycle" in three stages: creation, maintenance and disruption (Lawrence & Suddaby, 2006). Lawrence and Suddaby (2006) argue that institutional work "provides a solid conceptual foundation for emerging study of institutions" (p. 219) by shifting the emphasis away from superstructure i.e. the "field" (DiMaggio & Powell, 1983) or "societal sector" (Scott & Meyer, 1991), and bringing back the spotlight to the role of individuals and their everyday actions (Lawrence et al., 2011).

The institutional work strand has been received favourably by the academic community and has acted as the rallying point for scholars interested in agented accounts of institutions (Hwang & Colyvas, 2011). It has recently been one of the two major contributors of institutional theory (Zilber, 2013), and it has a rich literature that encompasses both theoretical and empirical studies. In their recent articulation of institutional work, Lawrence, Leca and Zilber (2013) identify three areas of concerns that researchers have opted to emphasize in their studies. They categorize these as "*how* institutional work occurs, w*ho*

does institutional work, and w*hat* constitutes institutional work" (Lawrence et al., 2013, pp. 1024, emphasis in original). *How* is concerned with the maintaining, creating and disrupting of institutions. *Who* concerns the actors involved which they identify as professional and consultancy services firms, institutional entrepreneur, leader and/or top executives. Lastly *What* is about the conceptualization of institutional work boundaries which they identify as being agency-centric. The proponents of institutional work celebrate it as all-encompassing by virtue of the fact that it is a "bottom up approach" (Lawrence et al., 2013), which gets theorized as scholars seek to understand institutions.

A detailed review of the work carried under the term "institutional work" is beyond the scope of the current thesis.[19], It is sufficient to say here that based on the discussion above and explicit advocacy by the scholars of the present tradition, it is an answer to the *required* power analysis and it is presented as the synthesis of critical theory and institutional theory (Lawrence & Suddaby, 2006; Lawrence et al., 2011). It has however certain presumptions attached to it because of its emphasis on intentional efforts of the individual. Researchers have, for example, expressed their concerns with institutional work by arguing that it incorporates into its analysis an over-emphasis on the sovereign individual (Hwang & Colyvas, 2011), driving institutions through intentional efforts and decision making (Lawrence et al., 2013), and viewing power as a producer of oppression by overcoming the forces that intend to keep the current settings (Fligstein, 1997; Lawrence et al., 2013). It however does broaden the discussion about institutionalization through seeking the process of institutionalization from not only the decision making and/or agenda restriction and utilizing a institutional entrepreneur/resource dependence perspective, but also including the sociology

[19] The different approaches, identified by Lawrence and Suddaby (2006), adopted for the study of institutional work have been presented in the table below.

of practice perspective to broaden the role and perspectives (see e.g. the assessment of Lawrence et al., 2013; Zilber, 2013 and the respective special issues for a discussion).

Lawrence and Suddaby (2006) and Lawrence et al. (2011) argue that institutional work can work as a "bridge" between the concerns of critical theorists and institutional theorists by giving us the ability to incorporate a political critique into the study of institutions and institutionalization. Willmott (2011) however, contrary to the claims made by institutional work theorists, expresses concerns over the ability of the tradition to integrate the two concerns. According to Willmott (2011), there does exist a potential within institutional work to incorporate in itself the methodologies adopted by critical theory but the gap between the concerns are different beyond the methodological levels.

Table 2.1: Empirical Studies in Institutional Work in the Three Stages of Institutional Life Cycle

Forms of Institutional Work		Definition	Key References
Creating Institutions	Advocacy	The mobilizing of political and regulatory support through direct and deliberate techniques of social suasion	Elsbach and Sutton (1992), Galvin (2002)
	Defining	The construction of rule systems that confer status of identity, define boundaries of membership or create status hierarchies within a field	Fox-Woldgramm et al. (1998)
	Vesting	The creation of rule structures that confer property rights	Russo (2001)
	Construing Identities	Defining the relationship between an actor and the field in which that actor operates	Lounsbury (2001), Oakes et al. (1998)
	Changing Normative Associations	Re-making the connections between sets of practices and the moral and cultural foundations for those practices	Townley (1997), Zilber (2002)
	Constructing Normative Networks	Constructing inter-organizational connections through which practices become normatively sanctioned and which form the relevant peer group with respect to compliance, monitoring and evaluation	Lawrence et al. (2002), Orssatto et al. (2002)
	Mimicry	Associating new practices with existing sets of taken-for-granted practices, technologies and rules in order to ease adoption	Hargadon and Douglas (2001), Jones (2001)
	Theorizing	The developments and specification of abstract categories and the elaboration of chains of cause and effect	Kitchener (2002), Orssatto et al. (2002)
	Educating	The educating of actors in skills and knowledge necessary to support new institutions	Lounsbury (2001), Woywode (2002)
Maintaining Institutions	Enabling Work	The creation of rules that facilitate, supplement and support institutions, such as the creation of authorizing agents or diverting resources	Leblebici et al. (1991)
	Policing	Ensuring compliance through enforcement, auditing, and monitoring	Fox-Wolgramm et al. (1998), Schuler (1996)
	Deterring	Establishing coercive barriers to institutional change	Holm (1995), Townley (2002)
	Valorising and demonizing	Providing for public consumption positive and negative examples that illustrate the normative foundations of an institution by creating and sustaining myths regarding its history	Angus (1993)
	Mythologizing	Preserving the normative underpinnings of an institution by creating and sustaining myths regarding its history	Angus (1993)
	Embedding and routinizing	Actively infusing the normative foundations of an institution into the participants' day-to-day routines and organizational practices	Townley (1997), Zilber (2002)
Disrupting Institutions	Disconnecting Sanctions	Working through state operates to disconnect rewards and sanctions from some set of practices, technologies or rules	Jones (2001), Leblebici et al. (1991)
	Disassociating Moral foundations	Disassociating the practice, rule or technology from its moral foundation as appropriate within a specific cultural context	Ahmadijan and Robinson (2001)
	Undermining Assumptions and Beliefs	Decreasing the perceived risks of innovation and differentiation by undermining core assumptions and beliefs	Leblebici et al. (1991), Wicks (2001)
Source: From Lawrence and Suddaby (2006) p. 221, 230, 235			

2.2.2 Institutional Logic

Institutional logic, originally introduced by Friedland and Alford (1991) as an attempt to answer the institutional paradox, seeks to limit the role of purposive actions of individuals or groups and argues that researchers should focus on the fragmented and contested nature of institutions. Their answer to the paradox was based on inter-institutional relationships as opposed to agency and resource dependence as proposed by DiMaggio (1988) and Oliver (1992). Criticizing the reductionist approaches (e.g. rationality, resource dependence, and organizational fields adopted by institutional theorist of the time), Friedland and Alford (1991) argued for what they called "bringing society back in".

Institutional logic studies institutionalization from a field level and highlights the role of constructed identities as opposed to independent actors. Like the institutional work perspective, it has also become an "umbrella term" that incorporates different approaches towards the study of institutionalization. Thornton and Ocasio (2008) define institutional logic as:

> *"… the socially constructed, historical pattern of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality"* (p. 101).

This definition of institutional logic is celebrated by authors that are wide-ranging and that include a variety of analytical methods which can explain the actions of individuals and their efforts towards the perceived social reality (Thornton & Ocasio, 2008). They contend that their "approach to institutional logic integrates the structural, normative and symbolic as three necessary and complementary dimensions of institutions" (Thornton & Ocasio, 2008, p. 101). From a reading of the definition above, one can assume that there exists an individual who (based on their exposure) perceives a purpose that needs to be achieved by the institution that they are involved with and that purpose can be fulfilled by organizing efforts in the *right*

direction. This approach towards the study of institutionalization has the potential to explain how an individual, whose behaviour and actions are shaped by the institution, can become the agent of change in the same institution. The definition above assumes that the individual/organization/group constantly and intentionally analyses the directions of their institution and exerts effort to change them according to their understanding.

The original proposal by Friedland and Alford (Friedland & Alford, 1991) holds a slightly different perspective than Thornton and Ocasio (2008). Friedland and Alford (1991) reiterated the importance of social norms on the direction of institutions and argued that:

> *"… we conceive of institutions as both supra-organizational patterns of activity through which humans conduct their material life in time and space, and a symbolic system through which they categorize that activity and infuse it with meaning"* (Friedland & Alford, 1991, p. 232).

When institutional logic is looked at from the position provided by Friedland and Alford (1991), the individual is seen as socially constructed based on the variety of discourses originating from the multiple institutions of the locale. Thus the individual does not possess the ability to independently analyse discourses but through the limitations imposed by the society itself through defining the relations. Friedland and Alford (1991) identified religion, family, capitalism, bureaucratic state and democracy through which meanings are derived to construct the symbolic order. These meanings, according to Friedland and Alford (1991), may vary over time or, by virtue of its definition, a different location will have a different set of discourses to interact with and derive meaning from. In their article they provided an explanation as to what constitutes an institution and how they should be conceived. The institution, according to them, is not just an organization or organizational field, but anything that can direct a set of responses within its domain. They adopt the definition of institution as introduced by Jepperson (1991), where an institution is

not just an organization such as an SEC, senate, court or a university but is also conceived to include the family, religion and the politico-economic philosophies of the society.

They reasoned that society consists of multiple institutions, and each has its own guided pattern of actions, but they have inseparable relations of mutual dependence and contradiction to each other. Thus to understand and study institutionalization, researchers needs to focus on how the multiple logics originating from these discourses interact with the institution through "individuals competing and negotiating, organizations in conflict and coordination, and institutions in contradiction and interdependency" (p. 240). In other words, individuals and institutions operating within the domain of a society are discursively constructed through negotiations between the societal norms and expected outcomes of the institutions. Friedland and Alford (1991) argue that "institutions cannot be analysed in isolation from each other, but must be understood in their mutually dependent yet contradictory relationships" (p. 241). Since institutions create a reality of their own, thereby one can argue that there exists no independent reality but the *reality* that gets created through constant interactions between the mutually dependent and contradictory institutions. This difference between institutional logic and other variants of institution theory provides a broader understanding towards how power operates in the process of institutionalization/ diffusion/and/or change. Thereby, when we set out to study the process of institutionalization, we must analyse the institutional field. The institutional field consists of related organizations (societal sectors as defined by Scott and Meyers (1991), or field as defined by DiMaggio and Powell (1983)), and of institutions that exist throughout the society including the state, regulators, family values etc. Theoretically, each of these will have a discursive effect on the direction of the other and the outcome will be a negotiated pattern of action.

Institutional logic perspectives assume that society consists of multiple logics. These logics are dependent on the markets, states, corporations, professions, families, religion, and

community (Thornton, Ocasio, & Lounsbury, 2012). Thereby, the logic can change both through temporal or local dynamics. While many of the studies concentrated on temporal dynamics (see for example Haveman & Rao (1997), Lounsbury (2002), and Thornton & Ocasio (1999)), others concentrate on location and/or power as a source for change. One of the studies that considers shifts in institutional logic based on location, was done by Lounsbury (2007) in his paper on practice variation in the mutual fund industry. In his study he identified two competing logics that were in use by fund managers, namely trustee vs. performance logic. He particularizes how the changes in the mutual fund industry logic were made possible based on the shift of the industry's main centre from Boston to New York during the 1960s. While both approaches (the Boston's trustee approach and New York performance approach) led to the contracting out fund management to independent money managers, they were done to different ends. Under the trustee logic, the end was cost consideration whereas the followers of performance logic would contract out the functions based on the possible improvement in short-term returns. He concludes that shifts in perceptions of participants in a field are not based on a natural outcome of evolution of knowledge but instead happen because "organizational and industry changes are embedded in logic … involve[ing] conflict over meaning and infrastructure that is produced by the activities of a wide variety of market participants" (Lounsbury, 2007, p. 303).

Although the work of Friedland and Alford (1991) had an impact,[20] the term institutional logic, according to Lounsbury and Boxenbaum (2013), gained recognition with a publication by Thornton and Ocasio (1999). In their paper, Thornton and Ocasio (1999) argued that the shift from performance to market logic in the higher education publishing

[20] Both in terms of citation and theoretical advancements.

industry was an outcome of historically contingent power relations that guided the decision makers.[21]

Thornton and Ocasio (2008) suggest that the notion of institutional logic can be utilized in varying circumstances (including time-based) as noted in the discussion above, multiple logics in existence based on locational differences (Lounsbury, 2007), event sequencing and structural overlaps. In these sub-strands the general ascription of institutionalization varies from discursive construction to agency. Institutional logic has inspired many theoretical as well empirical contributions that have stimulated books, special issues and conferences (see e.g. review of recent literature by Lounsbury & Boxenbaum, 2013). Institutional logic, while proposed and followed mainly by scholars having North American epistemological concerns, has recently attracted attention from continental scholars as well (see e.g. Cloutier & Langley, 2013).[22] Cloutier and Langley (2013) see similarities between the logics in institutional logic and "economies of worth"[23] and propose some venues for collaboration that could explain some of the "blind spots[24]" of the two worldviews. [25]

[21] They quantitatively tested six hypotheses.

[22] Traditionally, the institutional theory schools have been boundaries that reflect American and European thinking. While a complete discussion is beyond the scope of this thesis, some interesting differences between the schools can be studied in xxx.

[23] Aka "orders of worth", "worlds" and "regimes of actions" (Cloutier & Langley, 2013, pp. 19, Note 12).

[24] They identify the blind spots to include, "Micro-level processes and recursiveness, legitimacy struggles, moral dimensions of logic and materiality" (Cloutier & Langley, 2013, pp. 3-5).

[25] They argue that worlds in "economies of worth" and logic in institutional logic "both refer to higher common principles that reflect the degree of legitimacy of certain rules and values in society and define appropriate forms of conduct" (Cloutier & Langley, 2013, p. 6).

Again, a detailed discussion of all the different approaches adopted under institutional logic is beyond the scope of current chapter, but the table below provides some of the work that has been carried out under the institutional logic perspective.[26]

Table 2.2: Empirical studies in Institutional Logic in institutional life cycle

Forms of Change	**Definition**	**Sample Study**
Replacement	One institutional logic replaces another	Rao, Monin, and Durand (2003)
Blending	Combining dimensions of diverse logics	Glynn and Lounsbury (2005)
Segregation	Separation of logics from a common origin	Purday and Gray (2009)
Assimilation	Incorporation of external dimensions	Murray (2010)
Elaboration	Endogenous reinforcements	Shipilov, Greve, and Rowley (2010)
Expansion	Shift from one field to another	Nigam and Ocasio (2010)
Contraction	Decrease in Logic Scope	Reay and Hinings (2009)
Sense Making	Interpreting the logics	Lefsurd and Meyer (2012), Westenholz (2006)
Identity Construction	Sustaining or changing the identities under environmental pressures	Meyer and Hammerschmid (2006), Strandgaard, Pedersen and Dobbin (2006)
Practices	Relating processes to institutional logics	Borum and Westenholz (1995), Waldroff and Greenwood (2011), Westenholz (2012)
Locations	Shifts in logics through change in location	Lounsbury (2007), Hardy and Maguire, (2008), Wooten and Hoffman, (2008)
Source: From Thronton, Ocasio and Lounsbury (p. 164); Lounsbury and Boxenbaum (2013)		

[26] Google Scholar takes 0.07 seconds to return over 6,500 results when the term “institutional logics” with quotes is searched.

2.2 Concluding Comments

In this chapter, one of the two related to the literature review, I provide a short overview of the development of institutional theory, mostly concentrating on the bibliographic information and assessment of the theory. There are books and special issues in journals that discuss institutional theory, but for the sake of relevance and manageability I have described the main features of only two of its strands as they apply to organizational studies.

Both these strands see institutions in *broader* conceptual terms and define them as any structure or idea that can guide our behaviour under a set pattern. Accordingly the answer to *Why* remains the same under the institutional work and institutional logic perspective i.e. the academic field operates as an institution and guides our responses while we are acting within its boundaries. The difference among the two strands lies in the answer it offers to the question of *How.* While institutional work seeks the answer in terms of *purposive* actions of the individual towards the creation, maintenance and disruption of institutions, institutional logic, on the other hand, seeks to provide the answer in terms of the *constructed* action of the individual and through differential relations between institutions.

This chapter also discussed some of the identified *shortcomings*, specifically the analysis of power relations, in understanding institutionalization. For commenting further on these *shortcomings*, we need to understand what power is, how it operates and why studying power is important. To answer these questions the next chapter discusses power and how it has been conceived to be operating.

Chapter 3: Literature Review II: Power

In the previous chapter, I categorized institutional theory research into two groups based on the approach researchers adopt towards studying institutionalization. The first group, as discussed in the previous chapter, seeks to understand the process of institutionalization from the *purposive* actions perspective of the individual or group. *Purposive* action may be defined as the actions professed to be taken when the individual is aware of their surrounding and has the ability to exercise independent judgement. This, in the sociology of power, can be associated with the notion of sovereign power, where power is seen as something that can be possessed and acted upon. Dubbed the traditional view of power, sovereign power views power as something that can be held by an individual, group or institution and exercised over non-holders (Clegg, 1989). In contrast the second group, specifically institutional logic as presented by Friedland and Alford (1991), and Lounsbury (2007), locates the process of institutionalization through *constructed* actions. *Constructed* actions, as described in the previous chapter, are actions that are hypothesized to be originating from the multiple discourses that the individual or group is exposed to while being part of a society. These discourses manifest into actions through everyday interactions, inter-institutional relations, locales and/or events. Such an approach towards studying institutionalization, in the sociology of power, can be attributed to a critical view of power, where power is seen as operating not through *power centres* but through everyday interactions (Clegg, 1989).

This chapter discusses these two main perspectives on power. The conclusion from the current chapter and Chapter Two will be provided in Chapter Four, where I will discuss my own understanding of the two and the approach that will be adopted for this study.

3.1 Perspectives on Power

> *"We speak and write about power, in innumerable situations, and we usually know, or think we know, perfectly well what we mean. In daily life and in scholarly works, we discuss its location and its extent, who has more and who less, how to gain, resist, seize, harness, secure, tame, share, spread, distribute, equalize or maximize it, how to render it more effective and how to limit or avoid its effects. And yet, among those who have reflected on the matter, there is no agreement about how to define it, how to conceive it, how to study it and if it can be measured, how to measure it. There are endless debates about such questions, which show no sign of imminent resolution, and there is not even agreement about whether all disagreement matters"* (Lukes, 2005, p. 61).

The quote above from Lukes (2005) perhaps best simplifies the complexities involved around the question of power, the difficulty in defining it and understanding how it operates. It is not realistic to provide a comprehensive review of the literature related to power within the scope of a thesis. Power has been conceived and defined in variety of ways (for a review please see Bjorkeng, Clegg, & Pitsis, 2009; Clegg, 1989, 2006) and remains one of the most debated and researched constructs in sociology which is considered "central to any understanding of society" (Bjorkeng et al., 2009, p. 1).[27] It is therefore why, in the pages below, I will provide a brief review of the literature on power (specifically power as seen operating in the two categories of institutional theory).

3.1.1 Sovereign Power

Sovereign power, the enabler of *purposive* actions, according to Clegg (1989), draws on Hobbesian and Weberian sovereign concepts and views power as something that can be objectively held by an individual, group or institution. It provides its holder with the ability to act. The ability of power as an object that can be held implies that it is a tangible entity that

[27] Clegg and Hugaard (2009) provide a *crude* analysis of the construct "power" as it appears in in Google Scholar search. According to them "the score 'social power' has 376 million hits, for 'political power' 194 million which compares with 334 million for 'society', 253 million for 'politics', 52 million for 'sociology', 'social class' at 280 million and 'political class' at 111 million" (Clegg & Haugaard, 2009, p. 1).

can be sought out, transferred and can exist independent of its surroundings. Sovereign power implies that there are two types of individuals: individuals with power and individuals without power (Clegg, 1989). Analytically, it emphasizes the location of power, that is, who holds power e.g. ruling class, elites, capital, state, institutional entrepreneur, knowledge or resource holders etc. (Clegg, 1994; DiMaggio, 1988).

In his book, Lukes (1974) identifies three approaches to sovereign power that he terms a One-Dimensional, Two-Dimensional and Three-Dimensional view of power. Associated with the pluralist perspective, the One-Dimensional view of power, according to Lukes "involves a focus on *behaviour* in the making of *decisions* on *issues* over which there is an observable *conflict* of (subjective) *interests* seen as express policy preferences, revealed by political participation" (Lukes, 2005, p. 19 emphasis in original). In other words, to study power and power relations one needs to study the process of decision making under actual and observable conflict situations. Power in the One-Dimensional view is only visible and effective if there is a conflict between the interests of two parties. And one can identify the location of power through analysing whose point of view prevails in decision making and how it productively manifests into control (Lukes, 2005).

The Two-Dimensional view is an expansion of the One-Dimensional view. From this perspective, power exists not only in the situations where successful control is achieved through decision making but also in situations where the non-holder of power may be barred from bringing up an issue which goes against the ideals of power-holders (Lukes, 2005). Lukes (2005) defines the Two-Dimensional view of power as being that it "involves a *qualified critique* of the *behavioural focus* of the first view … and allows for consideration of the ways in which *decisions* are prevented from being taken on *potential issues* over which there is an observable *conflict* of (subjective) *interests,* seen as embodied in express policy preferences and sub-political grievances" (p. 25 emphasis in orginal). Considered as an

enhancement of the restrictive One-Dimensional View, this approach seeks to align itself with the behavioural perspective and to study power in both decision making and non-decision making scenarios by limiting the scope of the agenda (Lukes, 2005).

The Three-Dimensional view of power, according to Lukes (2005), is a radical improvement over the One and Two-Dimensional views. While the One and Two-Dimensional views look for visible and actual behaviour resulting in concrete decisions for analysing and locating power, the Three-Dimensional view takes into account a broader power structure by incorporating the effects of social and institutional forces that limit the ability to raise issues (Lukes, 2005). Lukes (2005) puts it that the "Three-Dimensional view … allows for consideration of the many ways in which *potential issues* are kept out of politics, whether through the operation of social forces and institutional practices or through individuals' decision making" (Lukes, 2005, p. 28 emphasis in original). In other words, the Three-Dimensional view of power seeks to understand the process of power relations through studying how holders of power create identities through controlling the socialization processes.

All three of the views seek to understand power in terms of holders vs. non-holders. Holders of power are seen as oppressors who exercise their power to control non-holders directly, control their agenda by overt operations, or create their identity through utilizing institutional and societal forces. The following table summarizes and provides a comparative analysis of the three views:

Table 3.1: Lukes Framework of Power

	One-Dimensional View	Two-Dimensional View	Three-Dimensional View
Definition	"…a focus on *behaviour* in the making of *decisions* on *issues* over which there is an observable *conflict* of (subjective) *interests* seen as express policy preferences, revealed by political participation" (p. 19 emphasis in original).	"allows for consideration of the ways in which *decisions* are prevented from being taken on *potential issues* over which there is an observable *conflict* of (subjective) *interests*, seen as embodied in express policy preferences and sub-political grievances" (p. 25 emphasis in orginal)	"allows for consideration of the many ways in which *potential issues* are kept out of politics, whether through the operation of social forces and institutional practices or through individuals' decision making" (p. 28 emphasis in original)
Approach	"pluralist" view of power – studies actual behaviour, stresses operational definitions and emphasises evidence	(qualified) critique of behavioural focus – studies situations where mobilization of bias can be attributed to individuals	critique of behavioural focus – stresses sociological and not merely personalized explanations of how political systems prevent demands
Focus	(a) behaviour (b) decision making (c) (key) issues (d) observable (overt) conflict (e) (subjective) interests, seen as policy preferences revealed by political participation	(a) decision making and non-decision making (b) issues and potential issues (c) observable (overt or covert) conflict (d) (subjective) interest seen as policy preference or grievances	(a) decision making and control over political agenda (not necessarily through decisions) (b) issues and potential issues (c) observable (overt or covert) and latent conflict (d) subjective and real interest
Features	provides a clear-cut paradigm to behavioural studies of decision making power by political actors, but it inevitably takes over the bias of the political system under observation	points the way to examining that bias and control (identified in limitation of the One-Dimensional), but conceives them too narrowly	overcomes the problem identified in the One-Dimensional and Two-Dimensional view, but has methodological difficulty, although this can be overcome with an effort
Implications	power is seen as producer of oppression by making someone do something which he might otherwise not do	power is seen as producer of oppression by controlling agenda	power is seen as producer of oppression by limiting choices through overt and covert social and institutional forces

Source: Adapted from Lukes (2005) **Power: a radical view (2nd Ed.)**

3.1.2 Power/Knowledge

In contrast to traditional views on power, power/knowledge introduced by Michel Foucault (1970, 1977, 1978, 1982, 1988, 2002) sees power not as a commodity that can be possessed but as existing in and operating via the discourses of *reality* (Sax, 1989; Skalen, Fougere, & Fellesson, 2008).[28]. Consequently the actions of the individual or group are not *purposive*, but rather these actions are *constructed* under the influence of the discourse of truth.

Foucault rejects the notion of sovereign power and is cautious of analysing power from the perspective of possession. He describes it in the following words:

> *"(I) do not regard power as a phenomenon of mass and homogeneous domination … of one group over others, or of one class over others; keep it clearly in mind that unless we are looking at it from a great height and form a very great distance, power is not something that is divided between those have it and hold it exclusively, and those who do not have it and are subject to it"* (Foucault, 2003).

In other words, Foucault (2003) argues that it is only possible to view power as located in an institution, group or individual if we intend to locate it there (self-fulfilling). He also cautions us against analysing power relations from the holder/non-holder perspective and argues that such an approach is a futile activity that leads us to "a labyrinth from which there is no way out" (Foucault, 2003, p. 28). To understand the operationalization of power, he suggests, one needs to look at the process of truth formation via knowledge creation that seeks to examine our everyday interactions. He thus takes the power away from the sovereign and distributes it into practices that are created through the nexus of power/knowledge e.g. the powers of a

[28] His theorization of power is scattered throughout his work, and the features of power/knowledge presented here are from his paper (afterwords for Dreyfus & Rabinow, 1982; Foucault, 1982), from my own reading of Foucault's work (Foucault, 1970, 1973, 1977, 1978, 2002) as well as from reviewers of his work (Clegg, 1989, 1994; Dean, 1999; Dreyfus & Rabinow, 1982; Faubion, 1994; Hall, 2001; McNay, 1994; Rabinow, 1984; Sax, 1989).

traffic signal exist through its association with the discourses of safety created via statistics of accidents and mortalities if violated.

Foucault argues that instead of asking:

> *"Why certain people want to dominate, what they seek, what is their overall strategy? Let us ask, instead, how things work at the level of on-going subjugation, at the level of those continuous and uninterrupted processes which subject our bodies, govern our gestures, dictate our behaviour etc."* (Foucault, 1980, p. 97).

Foucault sees power as not concentrated in an individual or group, but as distributed across processes that creates the individual. He tries to locate and identify the reasons behind such behaviours, which he calls subjectivity. He argues that that subjugation (the institutionalized self) comes through: the practices of *knowledge production* such as economics, biology and language; *categorizations* such as sane and insane, sick and healthy, criminals and law abiding; and lastly self-control through the production of *technologies of self*, such as sexuality, responsible citizenship etc. (Foucault, 1982, pp. 777-778).

He argues that power needs to be analysed at an impersonal level, as it is embedded in relationships at a level that an individual or group will not have the ability to be fully conscious (Sax, 1989). He proposed a radical approach to understanding power which he names the "economy of power relations" (Foucault, 1982, p. 779). Rabinow (1984) comments that the term "economy of power relations" implies that Foucault would approach a problem from a viewpoint where:

> *"There is no external position of certainty, no universal understanding … His main tactic is to historicize such supposedly universals categories as human nature each time he encounters them ... to discover the relations of specific scientific disciplines and particular social practices"* (pp. 4-5).

Thus one needs to look into the practices through which the practices are created, while at the same time staying away from the effects of the practice that one intends to study. In other words, the economy of power relations according to him, should be "taking the form

of resistance against different forms of power as a starting point" (Foucault, 1982, p. 780). At another place, Foucault explains the methodological implications of "economies of power" as power should be analysed from its:

> *"Infinitesimal mechanisms … and then see how these mechanisms of power have been – and continue to be – invested, colonized, utilised, involuted, transformed, displaced, extended etc."* (Foucault, 1980, p. 99).

Put differently, his argument is that to analyse power relations, one need to look into the meticulous mechanisms through which they not only operate but also reproduce themselves. Thus he seeks to understand power from how it operates rather than asking what power is. The reason he puts forward for questioning the "how" rather than the "what" is that for him power does not exist as a structure or institutions, neither is "it … an overall unity of domination given at the outset" (Foucault, 1978, p. 92).

At another place Foucault refines the idea and argues that power should be approached as a:

> "*… multiplicity of force relations immanent in the sphere in which they operate and which constitute their own organization; as a process through ceaseless struggles and confrontations, transforms, strengthens, or reverses … thus forming a chain or a system"* (Foucault, 1978, p. 92).

In other words, power is not an institution or a structure that exists in isolation but it exists in relations that institute our everyday interactions. While power reveals itself through instituted exchanges, these exchanges at the same time provide the opportunity for power to reproduce, transform, strengthen, or reverse itself. Put differently, power should not be seen as a control mechanism from the outset of an inquiry, but as something that creates instituted exchanges. This implies that power not only comes into play when a discourse dominates or displaces another, but it also produces pleasure and relief on its subjects, thus the instituted exchanges can be that of domination and of pleasure.

He argues that in order to understand the operation of power, the emphasis should be on the proposed definitions that guide our understanding. For example, when asked about his approach he commented that:

> *"In order to get an understanding of what is punished and why, I wanted to ask the question: how does one punish? This was the same procedure as I had used when dealing with madness: rather than asking what, in a given period, is regarded as sanity or insanity, as mental illness or normal behaviour, I wanted to ask how these divisions are operated"* (quoted in Burchell, Gordon, & Miller, 1991, pp. 74, emphasis in original).

In other words, for Foucault, to analyse how power operates one need to find the answer to how divisions are defined and boundaries are erected. Thus instead of asking the question about what is power and who holds it, to understand power one needs to look at how everyday practices get created under the influence of knowledge that creates the truth around us. In the same interview he further elaborates on this by saying:

> *"If I have studied 'practices' like those of the sequestration of the insane, or clinical medicine, or the organization of the empirical sciences, or legal punishment, it was in order to study this interplay between a 'code' which rules ways of doing things (how people are to be graded and examined, this and signs classified, individual trained, etc.) and a production of true discourses which serves to found, justify and provide reasons and principles for these ways of doing things"* (Burchell, et al., 1991, pp. 79, emphasis in original).

Thus in order to understand how power operates one needs to look into the practices of grading and coding, the practices of identifying who is who, the creation of expert knowledge, and processes of exclusions created via the production of true knowledge. In other words, through the power/knowledge nexus truths are created such as the concept of "human nature" that in turn become a source of governance mechanisms (Rabinow, 1984).

He further elaborates on these practices as follows:

> *"To put the matter clearly: my problem is to see how men govern (themselves and others) by the production of truth (I repeat once that by production of truth I mean not the production of true utterances, but the establishment of domains in which the practice of true and false can be*

> *made at once ordered and pertinent)"* (Burchell et al., 1991, pp. 79, emphasis in original).

In other words, power operates via a mechanism of governance designed through the production of *truth*. Such an approach thereby suggests that there is no truth but the truth instituted through the power/knowledge nexus. Thus concepts like efficiency, justice, responsible citizenships and rationality, under this approach, are historically created myths which have the exterior of being the true representations. For example, in one of his interviews, Foucault had the following to say about the idea of justice:

> *"It seems to me that the idea of justice in itself is an idea which in effect has been invented and put to work in different types of societies as an instrument of a certain political and economic power or as a weapon against that power"* (Rabinow, 1984, p. 6).

In essence, he argues that what appears to us as the truth, for example justice as in the above quote, is actually a "truth regime" created through the interconnectedness of power/knowledge that commands obedience by appealing to the authority of truth (McNay, 1994, 1999). He, therefore, sees power as something that:

> *"… applies to immediate everyday life which categorises the individual, marks him by own individuality, attaches him to his own identity, imposes a law of truth on him which he must recognize and which other have to recognize in him"* (Foucault, 1982, p. 781).

Thus power produces the subjects, subjects who feel satisfied and yield pleasure through power. Foucault argues that the pleasure is derived through attaching oneself to the truth originating from the discourse. For example, one visits the confession box to admit and repent the sins under the influence of truthful discourse of the religion. Or one buys a designer dress, as it reflects the true individual they are and expresses their inner feelings. Put differently the individual, a product of power, becomes the beacon of power by recognizing the truth of power. At another place, he argued:

> *"We are subjected to the production of truth through power and we cannot exercise power except through the production of truth … we are forced to*

> *produce the truth of power that our society demands, of which it is needed in order to function: we 'must' speak the truth; we are constrained or condemned to confess or discover the truth. Power never ceases its interrogation, its inquisition, its registration of truth: it institutionalises, professionalizes and rewards it pursuit"* (Foucault, 1980, pp. 93, emphasis in original).

Put differently, power functions through production and its association with *true* utterances, regimes of truth, that *must* be accepted and followed, and the inability to follow to such directions results in categorizations such as exasperated, anarchist, negligent, leftists, fundamentalist, extremist etc. On the other hand, the pursuit and reproduction of truth rewards through its own categorizations. It is therefore that the individual becomes not only *the* subject, but also converts himself into a producer of such subjugating true utterances. Thus power is everything that exists everywhere in every utterance and every relation. Power operates at a level that our bodies, minds and individuality is defined by the logic it promulgates (Foucault, 1978, p. 78). Thus power has moved from rule-based and oppression to that of mechanism of truth. At another place he argues that:

> "*… relations of power are not in a position of exteriority with respect to other types of relationships (economic production, knowledge relationships, sexual relations) but are imminent in latter … relations of power are not in superstructural positions with merely a role of prohibition of accompaniment"* (Foucault, 1978, p. 94)

However, power can only operate effectively if it stays hidden and the production/reproduction of power is "proportional to its ability to hide its own mechanisms" (Foucault, 1978, p. 86). If power becomes visible and is seen as a source of oppression as opposed to the consequence of truth, it loses its tolerability. For example, taking the example of a traffic signal, if instead of its association with the discourse of safety it is associated with the discourse of oppression and delaying travel, the tolerance will reduce and may even diminish. Similarly, if the process of completing a PhD is seen as a mechanism that produces an obedient researcher who will conform to standards, rather than as a process of learning "how to research" and being a promoter of free thinking, then writing a one hundred thousand

word document becomes a daunting task as opposed to a celebration of learning. Foucault cites the legal system as an example of it, by arguing that the political institutions of monarchy and the juridical system of the Middle Ages came under criticism in eighteenth century France when they were seen as "merely a way of exerting violence, of appropriating that violence for the benefit of the few, and of exploiting the dissymmetries and injustice of domination under cover of general law" (Foucault, 1978, p. 88). In contrast, the general acceptability of the legal system stayed intact under the pretext that there should be a system "to which all the mechanism of power would confirm, with no excesses or irregularities" (Foucault, 1978, p. 88). Thus the survival of political institutions and legal systems is dependent upon the formation of an alliance between the state and regulators if they are linked with the discourse of order and stability. It is not the law that creates the possibilities of power but the discourses of reality that create the opportunities for power.

If power is everywhere and it affects everything, is there any resistance or opportunity of resistance to power? Foucault argues that:

> *"Resistance does not derive from a few heterogeneous principles … they are the odd terms in relations of power; they are inscribed in the latter as an irreducible opposite. Hence they too are distributed in irregular fashion: the points, the knots, or focuses of resistance are spread over time and space at varying densities, at times mobilizing groups or individuals in a definitive way, inflaming certain points of the body, certain moments in life, certain types of behaviour"* (Foucault, 1978, p. 96).

Put differently, Foucault argues that resistance is embedded in power, something that has been taken into account, and strategies are formulated to deal with it and as such are distributed unequally over the nodes of power. Thus Revolt (with a capital R) occurs, but rarely, as "more often one is dealing with mobile and transitory points of resistance, producing cleavages in a society that shifts about, fracturing unities and effecting regroupings, furrowing across individuals themselves, cutting them up and remoulding them" (Foucault, 1978, p. 96). He argues that "where there is power, there is resistance and yet or

rather consequently, this resistance is never in a position of exteriority in relation to power" (Foucault, 1978, p. 95).

It is generally accepted that Foucault's own work remained relatively silenced over the question of resistance (see e.g. assessment presented by Prichard, 2004). However, if we are to accept that resistance is at the same location as power is, then the search for an analysis of resistance would start from the exact same place as the search for power. Locating the resistance in the light of the hide-ability and tolerability of the power, one can cautiously argue that resistance stands at odds with power if power becomes visible. Religious converts can be taken as an example here and so can the recent surge in attempts at and success in changes made to the definition of the institution of marriage. Similarly a related example from this thesis is the attempt to find the answer to the *How* of finance.

In short, unlike the traditional framework, power in Foucault's analysis is conceived as operating through the practices of truth creation. This truth is amplified onwards through the identification of *the good* and *the bad*. Consequently, the focus should, according to Foucault, remain on how knowledge is put into practice in institutional settings rather than looking at who holds power and how the holder commands (in)action of the non-holder. In other words, Foucault is "focused on the relationship between knowledge and power and how power operated within what he called an institutional apparatus and its technologies" (Hall, 2001, p. 75).

3.2 Concluding Comments

This chapter provided a short overview of how to study power from the two main approaches i.e. sovereign and power/knowledge. By linking these two approaches to power with the categorization of institutional theory proposed in Chapter Two, I wanted to

understand the basic assumptions behind the two groups of institutional theory to gain a richer understanding of the two.

The institutional work perspective, discussed in Chapter Two, can be categorized as an attempt to understand and study institutionalization based on the Three-Dimensional view of power by incorporating the human agency and practice perspective. Institutional logic, on the other hand, seeks to limit the role of human agency and puts more emphasis on the discursive formation of the individual through power/knowledge.

I will provide a brief understanding of the implications of adopting these assumptions about power relations in the two groups of institutional theory in the next chapter where I discuss the basics of methodology that I intend to adopt for this study.

Chapter 4: Methodology and Method

> *"Professor Bleent, an entomologist, sets out, along with his assistant, Miss Fonebone, to search for a rare insect, the Floon Beetle, which lives in the desert. This is a very rare insect: only one Floon Beetle lives at a time, and it comes out from the sand every 1300 years to lay just one egg! Having spotted this valuable beetle in the desert, Professor Bleent runs expectantly towards it, waving his magnifying glass, full of joy at being so unbelievably lucky as to have the chance to study this rare insect. As soon as he approaches the Floon Beetle he kneels in the sand, eyes wide open with excitement and curiosity, and put his magnifying glass over the beetle.*
>
> *Alas, as soon as he starts examining it with his magnifying glass, under the scorching desert sun, the Floon Beetle is burnt. Professor Bleent's investigation has come to a sad end. His very object of study, the extremely rare Floon Beetle, disappears with a sizzling sound. The method of his investigation destroyed what he had long been looking forward to studying with such enthusiasm."*
>
> (Tsoukas, 2005, p. 2)

This short story narrated by Tsoukas (2005) in the introduction of his book suggests that researchers should be aware of the tools they intend to utilize for studying the phenomenon of interest and be aware of the consequences it may generate. The object of analysis, in this thesis, one can argue is not as unique as the *Floon Beetle*, but the opportunity to destroy it in a similar fashion does exist. As such, careful consideration is required before I proceed to analysis. The extended literature review and this chapter can be considered an outcome of the discourse generated through such statements and stories.

To recap the discussion so far, I started this thesis by talking about my anxiety with academic finance originating from the institutionalized actions of being a Muslim and as a lecturer. The institution of Islam tells me that interest is *haram* and as such needs to be avoided. On the other hand, the institution of academic finance sees interest as a *natural* phenomenon that can enhance our understanding of investment and financial decisions.

I raised two questions based on this experience: *Why* and *How*. The discussion so far has concentrated on the question *Why* and I located its answer in institutional theory that

describes that academic finance (or Islam, for that matter) is an institution that provides me with a guided pattern of action to follow. I briefly described the relevant literature about institutional theory in Chapter Two and Three to get an understanding of the different epistemological and ontological concerns utilized, so far, to study institutions.

This chapter builds on the previous discussion and outlines the methodology that I intend to adopt for this study. After presenting a brief review of institutional theory and its current strands to study institutionalization, I will put forward my argument that outlines the relevance of power/knowledge for institutional theory. Next, I present the methodology, and the last two sections of the chapter introduce Space, Text and Practice as a method for understanding institutionalization.

4.1 Studying Institutionalization: A *Review* of the Reviews

There have been numerous reviews and appraisals of institutional theory dating as far back as the start of neo-institutionalism (see for example DiMaggio, 1991; Greenwood et al., 2008; Scott, 1987, 1995, 2001, 2008a, 2008b).[29] These appraisals in general, and the recent review of institutional work and institutional logic (Lawrence et al., 2013; Lounsbury & Boxenbaum, 2013; Thornton & Ocasio, 2008; Thornton et al., 2012) in particular have created their own institutionalized versions of the theory. The *appraisals* and review, from a power/knowledge perspective, increases the visibility of the research. But at the same time they also work as a tool for surveillance to identify the dos and don'ts, boundaries and where the "wheel is going to be reinvented". Putting the argument in different words, one can observe that the reviews and directions provided through such attempts identify the good

[29] To list only a few of the many available.

(celebrated) and bad (not mentioned) knowledge where one is marginalized in favour of the other (see for example the discussion by Prichard, 2013, p. 147).

The role of reviews becomes particularly relevant when a researcher is at the training phase (PhD studies to be specific). As a PhD student, the first thing we learn is to read a paper from the back (starting with a genealogy of the references) to locate and understand the argument. For example, for a PhD in critical management studies one needs to be aware of the work and ideology promulgated through the foundational texts (a student is expected to be aware of Alvesson & Deetz, 2000; Alvesson & Willmott, 1992a, 1992b; 1992c to list only a few) as well as the publications pattern and hot topics in the field's leading journals such as *Organization, Journal of Management Inquiry, Journal of Management Studies, British Journal of Management, Human Relations* etc.

The reviews also reinforce the definitions and the need to accept them without questioning and typically end by identifying the *shortcomings* and *future directions* in the reviewed field. The identification of *shortcomings* and *future directions* implies that the concepts or basis of the theory have already been resolved as such the concentration needs to be towards the identified *gaps* in the theory. For example, if we are to take the argument offered by institutional work, we must look at the *purposive actions* of the individuals towards creating, maintaining or disrupting an institution as well as accept the validity of definitions of concepts such as institutional fields, societal sectors, intentional efforts, emotions, actors, intentional and unintentional consequences etc. In other words, the *building blocks* of the theory, i.e. institutions, individual, actors and actions are already resolved issues and need not be considered for advancing knowledge. A similar argument can be put forward for the second strands discussed in this thesis i.e. institutional logic where actions are assumed to be influenced by discourses and inter-institutional relations. And we are to accept

the definitions of competing logics, competing rationalities and historical realities, locations etc. as taken for granted.

To sum up the discussion so far in this chapter, one can argue that insistent appraisals and *refocusing* of the directions have resulted in institutionalizing certain *acceptable* approaches to institutional theory (see e.g. Meyer, 2008; Tolbert & Zucker, 1996 for an assessment). And if we are to belong to that group ('community' in the words of Kuhn, 1996) we have to accept the already institutionalized versions. This, one can argue, can also explain why we end up with regular calls for incorporating alternative perspectives (see e.g. Clegg, 2010; Cooper et al., 2008; DiMaggio, 1988; Friedland & Alford, 1991; Hwang & Colyvas, 2011; Meyer, 2008),[30] as every now and then we end up at a place where the a priori assumptions fail to address the apprehensions put forward by the institutionalized versions of the theory.

Following the *approach* to knowledge creation, in Chapter Two, I described some of the studies within institutional theory. However my purpose there was not to identify the *strength* and *weaknesses* or create an argument that will identify the validity of one group over the other. Instead it was to understand how institutions have been approached and studied in the recent past (a necessity so to speak, for advancing the research paradigm). The interested reader might find the recent review by Zilber (2013) as a good source that provides an *ample* overview of areas of concentration within institutional work and institutional logic and an assessment of whether the two paradigms can be combined to create a *comprehensive* theory to study institutions.

[30] A very short list of the many such calls.

In Chapter Two, I also hinted at some of the discomforts within institutional theory, specifically the concerns of Suddaby (2010), Clegg (2010) and Cooper, et al. (2008). Suddaby (2010) expressed his concerns with institutional theory directions by locating the *problem* in the tendency of institutional theorists who is inclined to retrieve tools of analysis from alternative paradigms (specifically the positivist paradigm) in studying institution. For him, the problem can be rectified through adoption of a single-paradigmatic approach that would emphasize sense-making.

Clegg (2010), on the other hand, argued for a more inclusive power analysis (specifically identifying *State* and *Agency* as the missing elements). He argues that institutional theorists are yet to break free of the "theoretical binaries". And institutional theory has only recently been able to *correct* its direction by adopting the concerns from theorists "who have resisted splitting the world into a priori theoretical binaries, such as Garfinkel, Sacks, and Goffman" (Clegg, 2010, pp. 9). He argued that though institutional theory has been now trying to *correct* its direction through breaking up with its *traditional roots* it still has a *deficiency* as "Foucault has been *strangely* neglected by institutional theory" (Clegg, 2010, pp. 9-10, emphasis added). For him the necessary corrections can be achieved through a radical change in the vocabulary of institutional theory, whereby the term "norm" needs to be replaced by the term "power" (p. 11). Doing away with the old vocabulary, according to him, will enhance the practice of research in institutional theory. He concludes his review of institutional theory by posing the question, "Would the new generation of theorists in disciplines such as organization theory and management recognize the pre-eminence of a concern with power from the main discussions in the literature?" (Clegg, 2010, p. 11).

Calls for incorporating Foucauldian analysis have been made in other places as well. For example, Cooper et al. (2008) while discussing the similarities and differences between

institutional theory and critical theory, cautiously invokes the concept of *subjectification* and *normalization* as proposed by Foucault. They are however of the opinion that in order to meet one another, both institutional theory and critical theory must *sacrifice* some of their *institutionalized* stances (Cooper et al., 2008; also see the assessment by Willmott, 2011, pp. 70-71). Critical theory in management and organizational theory (and its outlet titled *Critical Management Studies*) seeks to study domination and control embedded in management knowledge, whereas institutional theory is more about understanding the process of institutionalization and in some instances predicting and controlling the conditions (see e.g. Oliver, 1992; Suddaby, 2010).

Cooper, et al. (2008) argue that without explicitly seeking a convergence of the two theories, institutional theory can enhance its understanding of the fundamental concepts such as actor, agency and power by adopting Foucauldian power/knowledge analysis. They assert the applicability of Foucault's power/knowledge concerns as *the* input through which such problematizations can be achieved. They argue that institutional theory seeks to understand as if the constructs of power and agency exist independent of institutional settings (Cooper et al., 2008) echoing an earlier argument by Meyer and Jepperson (2000) and Meyer (2008). Meyer and Jepperson (200) have attempted to turn institutional theorists' attention towards the contested nature of agency and actors. They argued that *much* of neo-institutional theory uses the term *actor* as if its creations and sustenance is self-evident. This results in theorists "take[ing] for granted that analysis must start with these actors and perspective actions" (Meyer & Jepperson, 2000, p. 100). Implying that theorists take *actor* and *agency* with "little reflexivity to denote people or organized groups, as if such entities are by definition actors" (Meyer & Jepperson, 2000, p. 101). They express their dissatisfaction and argue for more emphasis on the *construction* of actor-hood. They offer a few theoretical milieus through

which literature has come to understand the human as actor, as well as how such problematization between human and actor can be achieved.

Keeping in mind the literature and critique of institutional theory and while acknowledging that both institutional work and institutional logic have recently been the top two themes for studying the process of institutionalization (Lawrence et al., 2013; Lounsbury & Boxenbaum, 2013) and have produced important insights (Zilber, 2013), I seek to understand institutionalization from an approach that is derived from my *experience* of working within the two institutions, academic finance and Islam, interpreted through a Foucauldian power/knowledge perspective. The approach I adopt for this study stands in contrast to current methodologies towards understanding institutionalization, which sees it as the outcome of interactions between two *sovereign* individuals that are assumed/theorized to be actors (Berger & Luckmann, 1967; see also discussion by Willmott, 2011, pp. 69-70 on obfuscating agency). In other words, I seek to comprehend institutions and institutional change through accentuating the subject positions they disseminate and understand it from studying its effects on the subject position.

To elaborate, for studying institutions and institutionalization I seek to invoke power/knowledge and the understanding it provides towards how subject positions are created and acted upon within the boundaries of their respective *truths* (institutions). The subject position is however different from the actual subject, that makes possible for the institution to change overtime. Dean (1999) is of the opinion that institutions can only promulgate a subject position and this should not be confused with the *real* subject. He argues that institutions [*regimes of government*, in his wording] "do not *determine* forms of subjectivity. They [can only] elicit, promote, facilitate, foster and attribute various capacities, qualities and statuses to particular agents" (Dean, 1999, pp. 32, emphasis in original).

The definition of the institutions that I adopt for this study is the one presented by Jepperson (1991). Jepperson (1991), as described earlier in Chapter Two, argues that the institution is "a social pattern that reveals a particular reproduction process" (p. 145; see also Jessop, 2001; Jessop & Nielsen, 2003). In other words institutions, in this study, are approached as a set of common understandings that guide actions and are acted upon with or without conscious agreement or thought. Jessop and Nielson (2003) further clarify the concept and argue that such a definition should not be confused with a particular organization or action. Thus an institution stays different from an individual family, commodities, economic transactions, school etc. While an organization may be approached through institutional techniques of analysis they stay different from institutions (Jessop & Nielsen, 2003). The adoption of the definition implies that this study sees institutions and organizations as two different social bodies. An organization, for example, a university, is a set of multiple institutions that includes the institution of teaching, office/secretarial work, learning and research etc. The distinction carries specific importance towards studying and understanding the process of institutionalization, as the *existing* distinction between the macro (institutional field or societal sector) and micro (institutional/organizational) level studies of institutional change become irrelevant under power/knowledge. When the institution is seen as "guide to action" a change in setting reflects the "change in the guide", both at the institutional field or organization level, referred to as the super-organizational level (Jessop & Nielsen, 2003).

Another difference from the prevailing institutional analysis comes from the conception of actor/individual towards change. While for the most part institutional theory is conscious of the existence of power relations between actors and institutions towards an actualized changed, it has been relatively silent about how certain practices get precedence over the other. Foucault has been interested in working the questions out i.e. the relationship

between dominate and dominated and focalized and marginalized. Thus by adopting the power/knowledge perspective, one can bring into question why certain practices are/become institutionalized and others do not.

While my emphasis in this thesis is on how the subject position promulgated through institutions resulted in changing institutional settings of academic finance, there are two other set of possibilities. First, that the two subject positions keep their respective identities independent and continue onwards with the same pattern. The second outcome may be when these two subject positions collide, they create a different set of approach towards the problem e.g. create a *new* institution (say Islamic finance) that will carry over both subject positions embedded into it.

The following sections elaborate on and the discussion presented here and provides the case for relevance of Foucauldian studies in understanding institutions and institutionalization.

4.2 Foucault's Power/Knowledge and Institutionalization

As discussed earlier, the many reviews of institutional theory work towards legitimizing certain perspectives over others. I argued this to be one of the reasons that we see regular *calls* for incorporating alternative perspectives in studying institutionalization. Though critique (both self and beyond) have found their place within institutional theory as it moves towards *maturity* to produce an *advanced* analysis of institutionalization, there are, despite these claims to *advanced* analysis, calls for *fair* treatment of power (see e.g. Clegg, 2010). This recent call by Clegg echoed the concerns that institutional theorists have been advocating for a long time (Cooper et al., 2008; DiMaggio, 1988; Friedland & Alford, 1991).

Reviewers *overwhelmingly* target reliance on the agency and juridical notion of power as one of the *culprit* constructs that has been used in institutional theory.

Following Cooper et al. (2008) I advocate incorporating Foucault's discourse analysis in studying institutionalization and propose a focus upon the subject position embedded in discursive practices and technologies rather than seeing individuals as holders of objective interests. The main difference between the prevalent themes in institutional theories, and a Foucauldian inspired institutionalization, is the latter's conceptualization of power and power relations. As discussed in Chapter Three, Foucauldian studies see power as not centred in agency but as a network that works not necessarily top-down and restrictive but as productive forces that "produce things, induce pleasure and forms of knowledge (Hall, 2001, p. 77). Foucault advocates that closer attention be paid towards processes that give rise to *truth*. Truth here can be translated as the institutionalized and legitimized way of doing things in an institution.

For analysing the process of truth creation, he introduces the concept of power/knowledge. As discussed earlier in Chapter Three, the notion of power/knowledge implies that these two are interdependent and actualize each other. For him, knowledge works as not only a system of representation but also as the producer of the world. Through power/knowledge people survey themselves and others for conduct based on *truth*. Thus when analysing the relationships between action and knowledge, Foucault specifically cautions against determining truth. Rather he wants to focus on what possibilities that truth give people in constructing their social world. For him, power/knowledge creates self-disciplined subjects, the subjects who not only act under the power but also produce further avenues for the exercise of power and find pleasure in acting under the influence of it. Thus, in the context of the story described in Chapter One, when I enter the classroom as a lecturer I act as a normalized and disciplined subject working under the influence of the truth of

finance, where pleasure is obtained through disseminating the knowledge to the student. Upon exiting the classroom the truth of Islam creates my other subject position, where pleasure originates from following the true religion.

As discussed in Chapter Three, Foucault conceptualizes that "normalization" works through continuous practices of control and he refuses to recognize the existence of *universal truth*. He considers these as taken-for-granted historical creations that are aiming to subjugate. Thus my two positions of finance lecturer and Muslim, within their respective institutions, are not to be viewed as independent constructions but an outcome of institutionalization processes that guide the subject positions of finance lecturer and Muslim. Analytically this also implies that when looking at the process of institutionalization the taken-for-granted constructs such as agency, competing logics and actors are problematized. When one realizes that there is no external position but the one which is historically situated, then the analysis will bring everything into question that will include all the existing definitions, taken-for-granted relationships and ways of perceiving.

This conceptualization prompts a series of questions about the process of subjectification or the institutionalized/normalized ways of doing things within an institution. While the process of my identity creation as a Muslim is beyond the scope of this thesis, I will through this study raise a series of questions about the institutionalization of academic finance. The questions which I pose about the institution of academic finance and offer answer to in this thesis are:

1. What factors contributed towards its origin and how were its boundaries worked out? (studied in Chapter Five)
2. Where does the discourse of finance direct our attention to and avert our attention from? (studied in Chapter Six)

3. In what ways does the discourse of finance shape practices of self and self-discipline? (studied in Chapter Seven)

Researchers have provided diverse suggestions as to how to find answers to these questions from a variety of epistemological and ontological concerns (see for example Clegg, Kornberger, & Rhodes, 2005; Davis & Anderson, 2008; Du Gay, Salaman, & Rees, 1996; Hambrick & Chen, 2008; Hoffman, 1999; Lawrence, 2004; Lounsbury & Crumley, 2007; P. Miller & Napier, 1993; Skålén, Fellesson, & Fougère, 2006; Skalen et al., 2008; Small, 1999; Townley, 1993; Whitley, 1986b).[31]

One of the proposed ways to study these questions is through discourse and discourse analysis. Phillips (in Phillips et al., 2004; Westwood & Clegg, 2003 Chapter 7(b)) argue that discourse analysis and institutional theory share similar concerns yet their full potential to collaborate have yet to tapped. He argues that "while the roots of new institutionalism lie in the social constructionism of Berger and Luckmann, in its current form it provides little explanation of the processes of social construction that underlie institutions, no explanation of the role of the self-interested action, and no theory of power" (Westwood & Clegg, 2003, p. 220). For him, the deficiency can be covered through inclusion of discourse analysis in studies of institution and institutionalization.

Discourse and discourse analysis however is a contested domain and has been applied and understood in a variety of ways (Alvesson & Karreman, 2000; Phillips et al., 2004; Prichard, 2006; Westwood & Clegg, 2003). Prichard (2006) identifies eight "entry points" of discourse analysis as they are applied in organizational studies. Discourse studies are usually associated with linguistic analysis, however Foucauldian discourse analysis (derived from his

[31] A detailed discussion of these is beyond the scope of this thesis and as such is avoided.

works Foucault, 1970, 1973, 1977, 1978, 1982, 1985, 1986, 1988, 2002, 1980) sees discourse as not only related to language but practice as well. Du Gay, Salaman and Rees (1996) define discourse as:

> *"… the term (that) refers both to the production of knowledge through language and representation and the way that knowledge is institutionalized, shaping social practices and cultural technologies and setting new practices and technologies into play*" (Du Gay et al., 1996, p. 266). [32]

In other words, discourse narrates and studies the process of knowledge production and the process through which that knowledge is put into practice. Thus discourse is considered as the general system that forms and articulates ideas through which objects and subjects get created (Fairhurst & Putnam, 2004).

Hall (2001) defines a Foucauldian inspired discourse as "a group of statements which provide a language for talking about – a way of representing the knowledge about – a particular topic at a particular moment" (Hall, 2001, p. 72). In other words, for Foucault, discourse is not just limited to text but is embedded in everyday practices through the language it provides to speak about objects and the knowledge it circulates through our interactions at a particular moment (Du Gay et al., 1996; Hall, 2001). For Foucault, taking an example from this thesis, discourse will not only be the *text* of Efficient Market Hypothesis (studied in Chapter Six), but how that text translates into providing the theoretical and physical infrastructure of the markets. It will involve the study of the mechanisms through which the practice of investing is materialized in terms of the language to speak about

[32] This perspective has been identified as "knowledge and practice" and the rest of the seven he titles [in order of appearance] as: the Structurationist approach; the Text and discursive process; language games and discourse communities; narrative(s); language use, communication, talk, rhetoric and texts (literary analysis); public debate (general discourse); rhetorical form of knowledge (Prichard, 2006 Table 2).

investment and securities as well as the in terms of architecture of the markets and brokerage firms, stock tickers, and the assumptions associated with the dealings and price fluctuations.

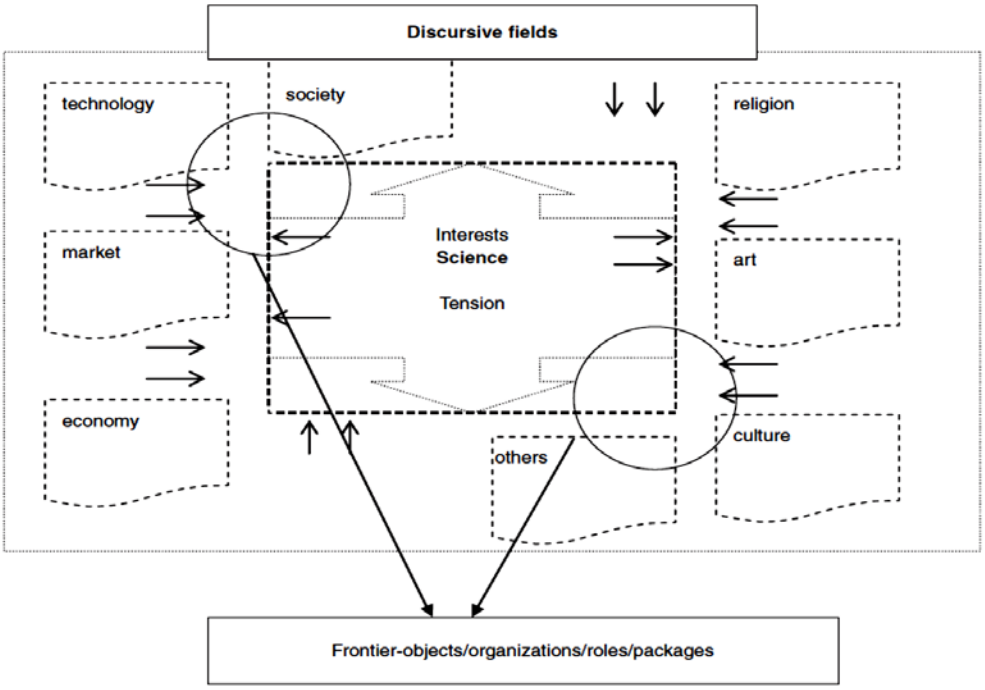
Discourse, for Foucault, thus serves as the reference point for a general system that forms and articulates ideas and constitutes both objects and subjects, the relation between which transpire into institutionalized practices (Fairhurst & Putnam, 2004). In other words, discourse creates and forms institutions through its mechanisms of identification and subjectification. Discourse can, therefore, be classified as the governing phenomena that enables and facilitates the formation of a topic and defines its boundaries in terms of what is "sayable and seeable" and creates uneven possibilities for competing claims to be *true* (Hall, 2001; Skalen et al., 2008; Townley, 1993).

The term discourse, as argued earlier, is however not new to institutional theory and there have been earlier attempts to introduce it into the study of institutionalization. One such earlier attempt has been from Phillips, Lawrence and Hardy (2004). They highlighted the importance of text in the process of institutionalization and argue that "institutionalization does not occur through the simple imitation of an action by an immediate observer but, rather, through the creation of supporting texts" (Phillips et al., 2004, p. 639). For them, the action taken by individuals via a meaning making process helps create new or modifies existing discourse by "affect(ing) the discursive realm through the production of texts" (Phillips et al., 2004, p. 240). Text which may exist in the form of formal and/or informal conversations, books, magazine articles or manuals interact with institutional practices via individual actors meaning making to pave the way for change, and thus a new type of action may witness institutionalization replacing an existing action.

The conception of discourse and discursive institutionalization proposed by Philips et al. (2004), however, differs from Foucauldian discourse analysis. A more direct Foucauldian discourse analysis was been adopted by Peci, Vieira and Milano (2009). Peci, et al. (2009)

studies the origin of the field of genetics in the USA. They argued that there exist a number of gaps that are prevalent in the currently accepted analysis of institutionalization. According to them, the current analysis lacks theorization of actions, considers institutions as a given, lacks a complete theorization to study change, organizations are considered a-political and fixed constructs, there is a focus on arbitrary constructs such as "organizational field" or "sectors" and an emphasis on arbitrary differentiation between organization and field, and lastly a focus on the utility of theories towards predictability (Peci et al., 2009, pp. 86-88). They argued for incorporating a Foucauldian discourse analysis and articulated the concept of "discursive fields". A discursive field, if we are to accept the definition of "institutional field" (DiMaggio & Powell, 1983) or "societal sector" (Scott & Meyer, 1991) as taken-for-granted, will be a level *above* the field or sector level, that includes the constructs identified by Friedland and Alford (1991). Peci, et al. (2009) diagrammatically represents the concept of a "discursive field" as below:

Figure 4.1: The Constitution of a Discursive Field



Source: adopted from Peci, Vieira & Milano (2009, p. 92)

A discursive field, therefore, consists of not only the “institutional field” or “societal sector”, but also includes religion, culture, market, economy, technology, legal etc. (Friedland & Alford, 1991; Peci et al., 2009). This implies that while studying the process of the institutionalization of a phenomenon, researchers should not only concentrate on the “institutional field” or “societal sector” but also include the system of institutions that operate in “collaboration and conflict” with each other (Friedland & Alford, 1991). Thus to understand the institutionalization of academic finance, I will not only be looking at what the university and departments within universities were *thinking* and how their policies were enacted and conceived by the actors inside it, but will also be including the system of institutions operating within the USA. In other words, unlike the accepted definition of field or sector, Foucauldian institutionalization does not necessarily link the related industries as the originator of change, but the whole of society, as is the case with the institutional logic perspective (Friedland & Alford, 1991). Peci, et al. (2009) applying the same methodological concerns studied the field of genetics and argued that genetics as a field is the product of “displacement, transformations and circularity of concepts and practices” (Peci et al., 2009, p. 103) between discourses originating from “eugenics, racial, gender, and social discourses” (Peci et al., 2009, p. 85).

The table below summarizes and tentatively differentiates the *institutionalized* approaches to study institutionalization through institutional work, institutional logic and power/knowledge perspective.

Table 4.1: Differentiating Institutional Work, Intuitional Logic and Foucauldian Institutionalization

	Origin of Change	Change Actualizes Through	Level of Analysis
Institutional Work	Purposive Actions	Independent actor through utilizing many techniques outlined in Table 2.1	Field level and institutional level
Institutional Logic	Constructed Actions	Competing logics, location and historical events	Institutional field / institutional society
Power/Knowledge	Subject Position	Changes in inter-institutional *order*	Discursive field

After describing some of the fundamental concepts of the methodology that I intend to adopt to understand *How*, I will in the following section describe the method in detail. This is starting with an explanation of how can we conceptualize subject position and take an account of its characteristics, followed by a description of how these terms have been studied previously, and lastly as a way to collect data for studying institutionalization.

4.3 The Theoretical Framework for Institutional Analysis

Foucault himself has mostly remained quiet on the question of method other than on a few well-cited occasions. His work is, however, divided into three distinct phases or sub-themes: archaeological, genealogical, and ethics or care of the self (Burrell, 1988; Clegg, 2006; Dreyfus & Rabinow, 1982), depending on his object of analysis.[33] In his earlier work (that includes titles like *The order of things* (Foucault, 2002), *Madness and civilization*

[33] An excellent overview of the three stages of his work has been produced by Dreyfys and Rabinow (1982).

(Foucault, 1988) and *Archaeology of knowledge* (Foucault, 1970)) his concern was with the question of knowledge and discourse. In the second stage of his work (in titles like *Discipline and punish* (Foucault, 1977) and the first volume of *History of sexuality* (Foucault, 1978)) his main theme is power. In the third stage of his work (e.g. *Use of pleasure* Volume 2 (Foucault, 1985) and *Care of the self* (Foucault, 1986)), his attention has been towards the question of ethics and governmentality and is still open for interpretation as per Burrell (1988).

According to Burrell (1988) his early work in "the archaeological method presupposes discontinuities ... its key aim is to constitute discursive series and see where they begin and end. It seeks primarily to understand the 'archive' – the diversity of autonomous and sometimes amorphous discourses" (Burrell, 1988, p. 223). In other words, in his archaeological undertakings Foucault seeks to understand the subject position that the discourse of science formulates (Burrell, 1988). Archaeology is thus more oriented toward the object of analysis, i.e. study of medicine, biology, economics (or finance) and the discourses generated through their representation as truth. Foucault later, in his second phase, introduced a more *categorical* power analysis in his studies by incorporating genealogical concerns where the emphasis on practice took over the earlier emphasis on theory (Burrell, 1988; Rabinow, 1984). Burrell (1988) defines genealogist as "a diagnostician who is interested in power, knowledge and the body and how these inter-relate" (Burrell, 1988, p. 224). It is within these genealogical endeavours, specifically *Discipline and punish* (Foucault, 1977), that Foucault introduces and contrasts "disciplinary power" from traditional power (Burrell, 1988; Skalen et al., 2008). Foucault theorized disciplinary power, as discussed earlier in Chapter Three, to operate at a complex level that formulates our understandings and our reactions at the outset (Burrell, 1988; Clegg, 2006). Thus, the concern of genealogy differs from archaeology by incorporating the study of the subject into analysis. Rather than studying how a *science* originated, which is the main concern in archaeology, genealogy

seeks to understand how the subject is created through the discourses originating from the science. Putting it in the context of the story that I began this thesis with, the subject (finance lecturer) will be seen as acting under the influence of the disciplinary power that academic finance generates through its association with *truth*. Being a scientific knowledge that has a large following throughout the world, the subject is *obliged* to conform to its legitimacy and disseminate its knowledge. The disciplinary power that an institution can generate thus has power to restrict responses, but the subject does not see these as restrictions and acts as if it is from free will. The most obvious example of disciplinary power can be located in the institution of religion (going to the confession box to confess the sins, performing prayers five times a day etc.) and fashion (where the discourse of individuality is materialized through designer clothing etc.). These distinct preoccupations are not generally conceived to be different approaches, but "these represent different emphases that are more or less predominant at different stages in Foucault's work" (Clegg, 2006, p. 229).

Foucault, as discussed earlier in the section, rarely articulated his method of analysis. However, there are a few good studies that provide a broader understanding towards operationalizing Foucauldian-inspired research (see for example the work of Dean, 1999; Dreyfus & Rabinow, 1982; Jørgensen, 2002; Kearins & Hooper, 2002; P. Miller & Napier, 1993; Prichard, Jones, & Stablein, 2004; Skålén et al., 2006; Skalen et al., 2008; Townley, 1993). These methodological directions differ from each other due to varying the emphasis put on objects that supersede one question over the other. For example, Dean's (1999) methodology deals with the analysis of governmentality while Jorgensen (2002), Miller and Napier (1993), and Kearins and Hooper (2002), have genealogical interests and the work of Prichard et al. (2004) seeks to understand how a discourse analysis can be carried out in the Foucauldian tradition. While none of these have elaborately sought to understand the process of institutionalization they, however, relate to understanding the process of domination and

marginalization of certain practices over others. In my articulation of the method for understanding subject position and institutionalization, I will be freely borrowing both terms used and methodology adopted from the work mentioned above.

As explained earlier in Section 4.1, I seek to understand institutions and institutionalization from my experience of working within the two institutions of academic finance and Islam and their respective *truths* and the subject positions they promulgate. A careful re-reading of the experience portrays three main concepts related towards the subject position being acted upon. These, I call the facets of discourse and name them, as:

- *Space* (directly related to the location i.e. inside-the-classroom and outside-the-classroom);
- *Text* (the norms or expectations associated with the subject position); and lastly
- *Practice* (the act of doing based on the Space and Text associated with the subject position).

As argued earlier in the chapter, I seek to understand institutionalization through the subject position that it promulgates and by tracing the historical creation of the subject position through the three facets of discourse. Foucault argued that to understand the subject position, an *individual* with a function and character, in an education institution is *created* through:

> *"the disposal of its 'space', the 'meticulous regulations' that govern its internal life, the different 'activities' that are organized there"* (Faubion, 1994, pp. 338, emphasis added).

The following presents the three facets of discourse in detail and is followed by the articulation of the methodology in detail.

4.3.1 Space

The first facet of discourse, that I call Space, is the facet that individualized the subject and makes it available as a calculable object to study and guide its behaviour. For example, in the context of the story presented in Chapter One, the Space of the classroom and the Space of society makes me available for examination of my actions in relation to the promulgated pattern (that is interest is natural and beneficial vs. interest being *Haram*). Foucault (1977, p. 141) argues that "discipline proceeds from the distribution of the individual in space" that entails the techniques of *enclosure, partitioning, functional sites,* and *ranking*. Through distribution the subject in its individualized space, the characteristics and actions of the *individual* can be identified and as such they become calculable and governable objects.

Space, in other words, works to isolate the *individual* from the crowd to observe and examine that *individual*. The identification of the *individual* through its distribution in Space make the *individual* available for observation and examination to be "manipulated, shaped, trained" argued Foucault (1977, p. 137) so that it can be transformed into something "which obeys, responds, become skilful and increases it forces". In other words, the institution consists of a Space facet that works to individualize the subject and makes it possible for the institution to provide it with the guided pattern (Jepperson, 1991) that it disseminates.

Friedland and Alford (1991), as argued earlier in Chapter Two, see society to be consisting of multiple institutions that include the institutions of religion, political identity, family structure and economic ideology all of whom compete and collaborate to form the subject positions in the order of the society. For translating the theorization of Space presented above from an *individual* to institution thus requires an understanding of the system of institutions in the society and the way they have been enclosed, partitioned and ranked. As discussed earlier in Chapter Three, Foucault does not see power embodied in an individual,

structure or group but as embedded in relations extending to the whole of society. For analytical purposes it means that one should seek to understand the totality of relations that usually involves studying the continuous struggles within a society between discourses in terms of domination, marginalization, prohibition and resistances. These struggles shape our conduct and define the standard for conduct and create subject positions among institutions as well as the subject positions that the *formed* institution promulgates.

In other words, we need to study the society as a whole and the interrelationship of the institutions within it (Friedland & Alford, 1991) to understand how an institution is *individualized* and provided a subject position in the *order* of the society. A study of the Space facet of an institution will thus require us to seek and review the discourse about understandings of societies' political identity, religion and economic orientation that defines the *individualization* of the institution within the crowd and *orders* their respective subject positions. For example, in the case of academic finance the *Space* will not only consist of the geographical space but also the governance mechanisms in operation within the society. Through a study of the enclosure, partitioning, functional sites and rankings of the organization in the order of the society we will be able to analyse how certain institutions were individualized, transferred, marginalized and focalized, in other words, created or disrupted.

So to study the formation of Space of business schools, we need to look at how it relates to the university through its *heterogeneity* with other schools within the university as well as its *distinct* nature that identifies it as a business school. In the order of the Space of business schools each subject (*Marketing, Finance, Industrial Relations, Human Resource, and Accounting etc.*) is assigned a Space to which they belong and each *having* a Space of their own which belongs to them. The *partitioning* between the subjects taught within the Space of business schools, according to Foucault (1977), is a disciplinary requirement to

avoid the uncontrolled disappearance as well as imprecise distribution of the *individuals*. To ensure proper governance through avoiding the *confusions* and *swarming mass* the Space of business schools will have functional sites that filters and pins down the partitions for ensuring *individuality*. Thus the order of the Space of business schools also have a *functional sites* (that is the head of the school and academic coordinators as well as course coordinators) to ensure proper implementation of the operation of the Space and its parts. The *heterogeneity*, *distinctions*, *partitions* and *functional sites* make it possible to create *rankings* within the Space of business schools, which in turn identify the *celebrated* and *condemned* practices within the Space that creates the continuous learning systems for the *individuals*.

If we are to broaden our analysis from the university to society in relation to the Space of business schools, the same procedure will be adopted to understand the relations of government, regulators, philanthropies and scholarship providers etc. to understand how the *distribution* of these work towards the formation of the Space. In other words, to understand the institutionalization of academic finance, we will need to look at the relation of dependence and contradiction between the government, philanthropic institutions, universities and regulatory bodies in the formation of the Space of business schools (which in turn provides the Space to academic finance) in terms of how they in the *order* of the society are enclosed, partitioned and ranked.

4.3.2 Text

The second facet of discourse, that I call Text for the purposes of this thesis, is the written/unwritten norms within the institution that provides the guidelines for the subject position to act within the guided pattern. Phillips, et al., (2004) argues that texts provides the link between the institution and actions through its ability to transmit the information flow between actors and institutions. Text, according to Philips, et at., (2004; see also Fairclough,

1992; Westwood & Clegg, 2003), can take the form of a written transcript, pictures, symbols, buildings or any other symbolic expression that can be accessed.

Text, thus provides, the contextual meaning to action by identifying the norms that can be utilized for self-assessment and assessment of others, while it itself is an outcome of the process of normalization and truth creation. Foucault, as noted earlier in Chapter Three, argues that normalization (of a Text/Space) comes through a range of techniques, practices and institutions aimed at creating the *true* knowledge of the individual. This *truth* defines the conduct of the institutionalized individual within the Space of an institution and provides the standard through which the individual can be examined. For example, Whitley (1986b) describes the role of the Employee Retirement and Income Security Act in the institutionalization of the conduct of fund managers through defining the fiduciary duty. Another example of normalized truth is the study of normal vs. abnormal price movements in securities prices, as defined by the discourse of Efficient Market Hypothesis that identify normal change in prices and when these changes can be associated with an anomaly such as weekend effect, January effect, neglected firms or earning reports etc.

To clarify, truth for Foucault is not *Truth* per se but rather a shared belief within the Space of an institution. Rather truth is the outcome of historical processes through which we come to identify ourself and assess our actions. For example, in the case of the story elaborated in Chapter One, the truth within the Space of academic finance which sees interest as natural and beneficial phenomenon is contrasted with the truth of Islam which argues interest to be *Haram*. “Truth is undoubtedly” according to Foucault (in Rabinow, 1984, p. 79) “the sort of error that cannot be refuted because it was hardened into an unalterable form in the long backing process of history”. In other words, *truth* is the outcome of a violent history that replaces another *truth* through its association with the truthful discourse that creates the impression of “moment of greatest perfection” (Rabinow, 1984, p. 79).

Foucault argues that once we come to know of a *truth*, for example, a new and efficient way of doing business, such as Total Quality Management, it produces the effect of a *descent*. The descent of *truth* than "attaches itself to the body. It inscribes itself in the nervous system, in temperament, in the digestive apparatus; it appears in faulty respiration, in improper diets" (Rabinow, 1984, p. 83). In other words, *truth* once established becomes the standard for the institution through which all current, future and past activities are judged. For example, the establishment of the theories of *modern* finance and its way of doing, allowed us to see *traditional* finance as *condemned* knowledge that was practitioner based and non-scientific that was unable to provide explanation as to the working of firms or markets.

The establishment of the Text of an institution allows us to carry out the examination of activities carried within the Space of an institution. It allows us to *judge* the activities of the individual and categorize them as *centre of excellence* and *condemned*. Thus while Space renders the *individual* available for observation and examination the Text provides meaning to the *examination* by identifying the good and bad actions. Combined the two facets of the institution provides the guide for the subject positions that it promulgates.

4.3.3 Practice

The third facet of an institution is Practice which, for the purpose of this thesis, I define as the act of doing within the Space of an institution guided by the Text for example, teaching interest as natural and beneficial or considering interest to be *Haram*. The Practice facet of the institution is therefore the process through which an individual produces self-understanding and examination for his own conduct as well as judge the conduct of others. Rabinow (1984, p.11) argues that Foucault has been "primarily concerned with isolating those techniques through which the person initiates an active self-formation … [that] takes place through a variety of operations on [people's] own bodies, on their own thoughts, on their own conduct".

Current strands in institutional theory, specifically, institutional work and institutional logic, approach institutions from a Practice facet and has been theorized and studied as the *originator* of change/stability or disruption in the process of institutionalization. The theorization of the Practice facet of the institution includes collective action, micro-foundation, macro-foundation and performativity (see for example Barley & Tolbert, 1997; Czarniawska, 2009; Hambrick & Chen, 2008; Hargrave & Van De Ven, 2006; Lawrence & Phillips, 2004; Lounsbury, 2002, 2007, 2008; Lounsbury & Crumley, 2007; Lounsbury & Ventresca, 2003; MacKenzie, 2003, 2006, 2009; Millo & MacKenzie, 2009; Mutch, Delbridge, & Ventresca, 2006).

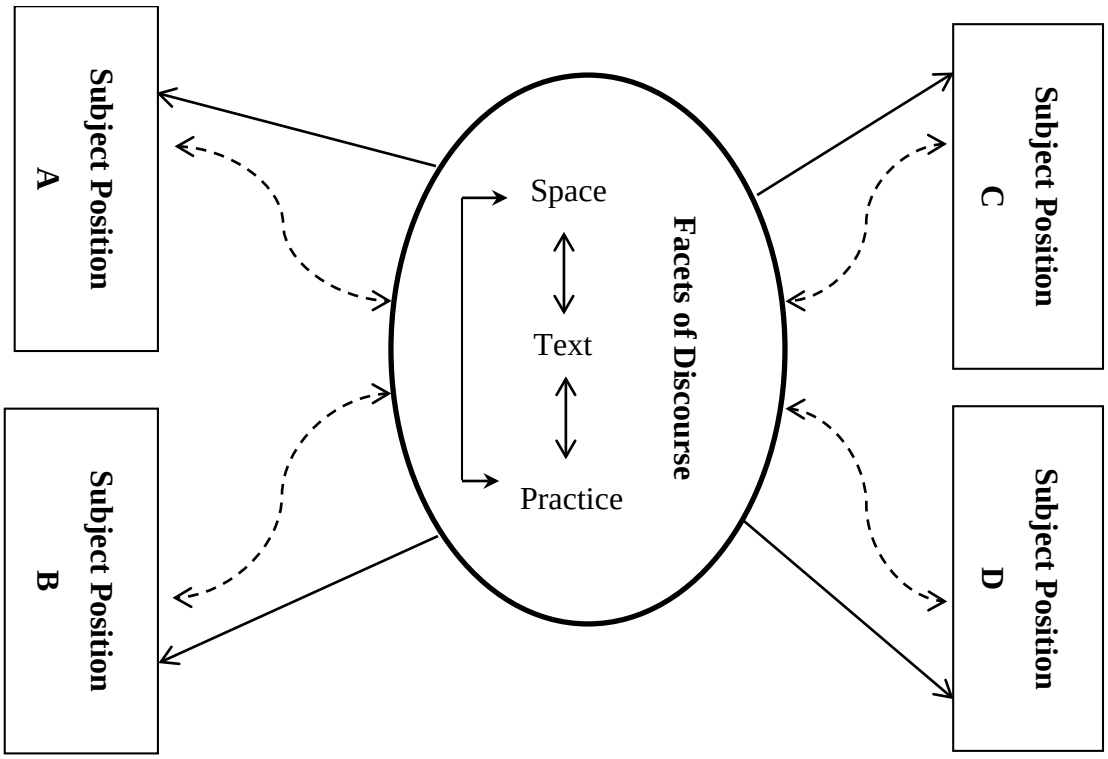
Practice, as defined in this thesis, links the subject position (identity) created through Space and Text of the institution with the actions of the *individuals* seeking to establish or refute the subject position. Practice in this sense provides the "tangible focal point for shifts or alternations in institutional logics" (Thornton et al., 2012, p. 129). In other words, Practice enables the mobilization of resources and efforts towards or in opposition to the *identity* (Hambrick & Chen, 2008; Prichard, 2004), and Space and Text provide a collective identity that is materialized/ marginalized in Practice that involves the mechanism of dominance and resistance. Schneiberg and Lounsbury (2008) argue that mobilization can come from both within and outside of the institution and often involves an exploitation of existing contradiction within the identities and multiple logics.

An important point worth mentioning here is that the distinction between Space, Text and Practice is somewhat subjective. While a classroom can be categorized as a Space when it is studied in relation to the department, the classroom in itself remains a combination of Space, Text and Practice. Similarly the department within a university can be categorized as Space when it is studied in relation to the university. Any deviation from the current level of analysis will change the system of differentiation between these facets of discourse. Thus,

while it is tempting to understand a piece of legislation or policy as Text, that text is a combination of Space, Text and Practice.

To conclude, a study of institutionalization will involve looking for discursive relations between the Space, Text and Practice facets of a discourse that creates a subject position. To understand the process of institutionalization, we need to understand how the three facets of the discourse are interrelated and actualize themselves through subject positions. If I am permitted to present the argument graphically it will look like:

Figure 4.2: Space, Text and Practice as Enablers of the Subject Position



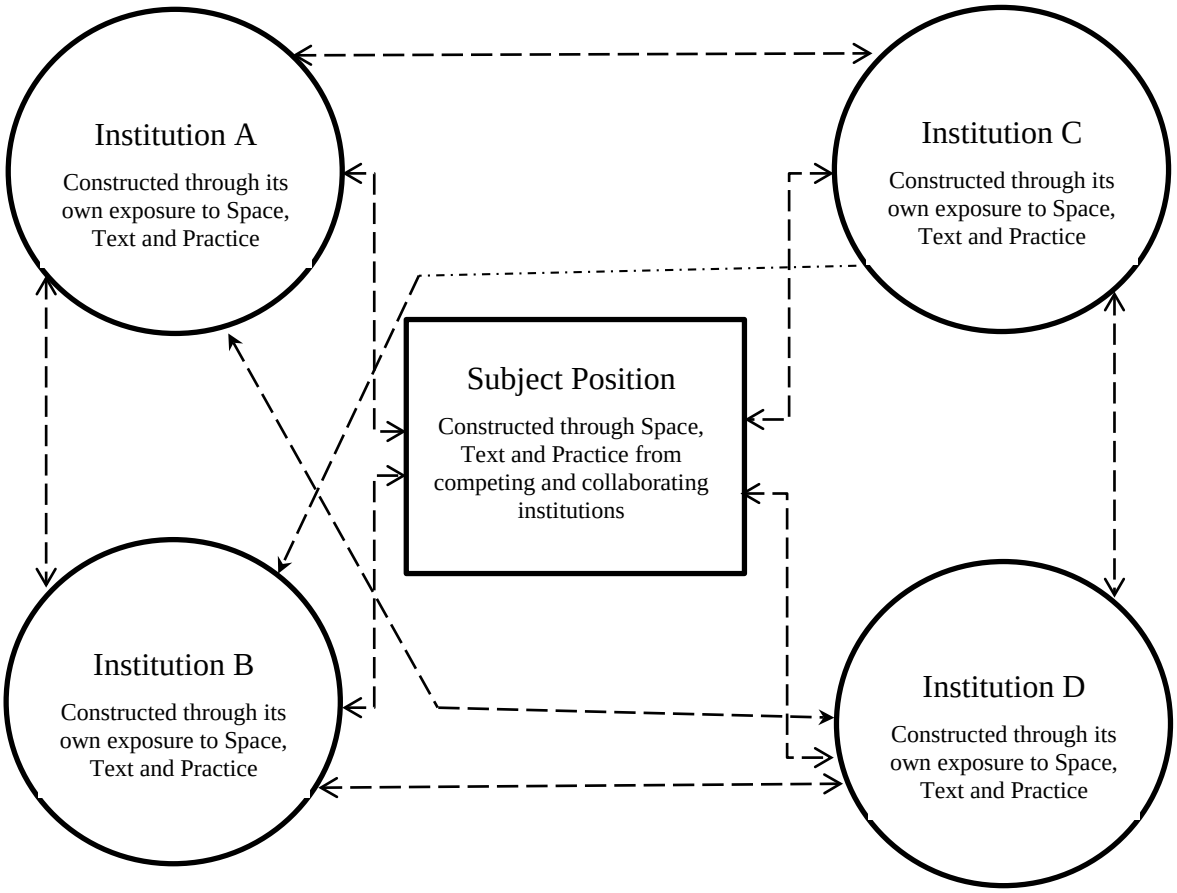
The diagram above represents the two phases of power/knowledge. The solid lines, the first phase of institutionalization, create subject positions based on the facets of discourse i.e. Space, Text and Practice. The dotted line shows relations between the subject positions and Space, Text and Practice represent the second phase of power/knowledge. As argued earlier in Chapter Three, power/knowledge is actualized through the subjects who create further avenues for the exercise of power. To put the argument in an example, the four

subject position are the ones which I encounter on daily basis: A, as a family member (a father and husband); B, as a researcher (doing PhD work); C, as a pupil (working under supervisors); and finally D, as a Muslim (religion discourse). Each of these subject positions overcomes the other when exposure to Space, Text and Practice changes. This exposure to Space, Text and Practice, with their respective temporal dynamics, guides me towards the appropriate behaviour (norm) for further exercising of the subject position. If we are to accept the definition of the *institution* as the provider of the guided pattern for appropriate action, then one can argue that the institution is itself a product of discourse through its facets of Space, Text and Practice and their interrelationship.

The Text or guiding principles (of an institution) however are not given nor are their existence a priori. They are a product of political efforts surrounding displacements, discontinuities, ruptures, domination, oppressions and pleasures. Foucault's studies have been about bringing back the contested nature of the *order* that appears as a-political. By analysing the Space, Text and Practice surrounding an institution we can re-politicize the orders. In other words, studying institutionalization guided by Space, Text and Practice will incorporate the lost "ruptures and discontinuities" in an analysis of history and thereby "portray the past as a series of events unfolding into the present (Kearins & Hooper, 2002, p. 736)". Through these we seek to understand the political history between discourses and get an understanding of how they led to the emergence of objective truths. For example, if we are to take the subject position that I occupy as father while working under the institution of family, it is not given a priori. There are constant discourses involved around how a father is to behave e.g. the discourses of family violence, child education, religious and other fiduciary duties towards raising a child. All these discourses construct the Space, Text and Practice of fatherhood. Also, the child-raising practices today are different from the practice of child-raising say a decade ago. While *disciplining* a child would have been an acceptable way of

raising them, the same *disciplining* is now classified as *family violence.* In the case of this thesis, discursive institutionalization guided by Space, Text and Practice relations highlight how various ruptures and discontinuities led to what is understood as objective knowledge in academic finance. Human sciences (such as finance) requires for its emergence and application a body of knowledge "that is not only created through the functioning of disciplinary institutions and technologies but provides, in itself, the basis for controlling in individuals" (Loft, 1988, p. 19). The figure below represents the argument graphically:

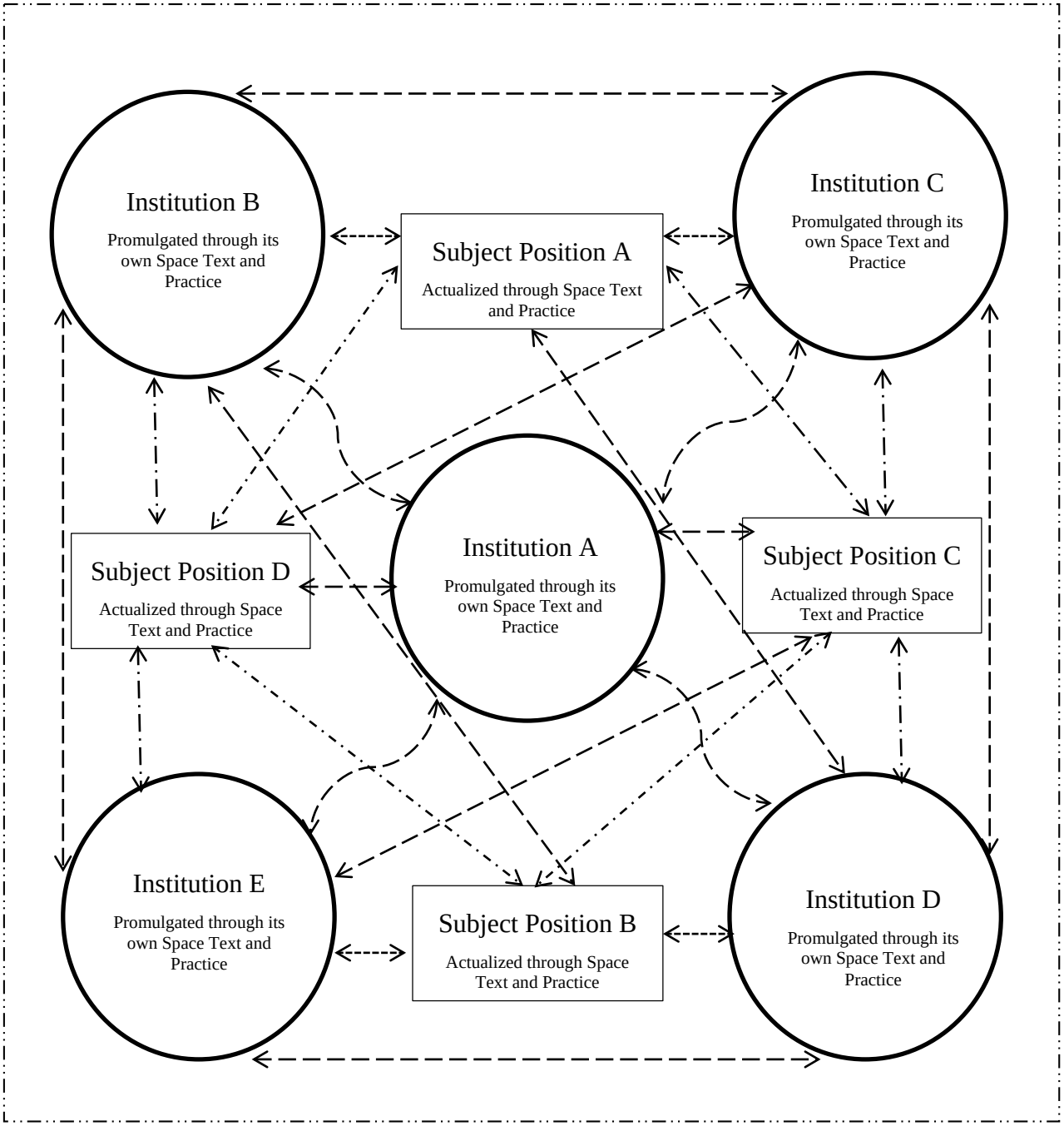
Figure 4.3: Institutions as Product of Space, Text and Practice



As depicted in the figure above, the subject position is a product of the discourses generated through a number of Space, Text and Practice facets of discourses originating from the institutions who themselves are a product of Space, Text and Practice and are exposed to this based on the inter-institutional system of organization.

In other words, to study institutionalization one needs to understand the different subject positions originating from the competing and collaborating institutions through promulgating its own Space, Text and Practice facets of a discourse. Graphically, the argument can be represented by combining the two Figures 4.2 and 4.3 above.

Figure 4.4: Understanding Institutionalization



4.4 The Empirical Framework

In this section, I intend to tentatively describe a method of searching archive for relevant data with regards to institutionalization. For doing so, I will use a short example which relates to the history of finance ideas presented by Weston (1994). The chapters that are to follow have their own versions of standard history as described from the sources listed in there and based on the relevance the tentative Space, Text and Practice facets of discourse to search the archive.

In his paper Weston (1994) argues that major finance ideas were developed while "responding to the pressing economic, financial and socio-political problems" (Weston, 1994, p. 7). He provides us with a chronological account of the development of different ideas and academic theories within academic finance. The following table provides an overview of major finance ideas and the year in which they were proposed.

Table 4.2: Emergence of Major Ideas in Finance by Initial Year of Decade					
1930	**1940**	**1950**	**1960**	**1970**	**1980**
Interest Rates and Investment Decisions: Fisher 1930 **Valuation Theory:** Williams 1938	**Financial Markets and Business Finance**: Jacoby and Saulnier, 1947	**Capital Budgeting:** Dean, 1951 **Working Capital Management:** Baumol, 1952; Stone, 1972; Smith, 1973; Kim & Atkins, 1978; Sartoris & Hill, 1983; Gentry, 1988; Kim & Srinivasan, 1988, 1991; Hill & Sartoris, 1988, 1993) **Merger Analysis:** Weston, 1953 **Dividend Growth** Model: Gordon & Shapiro, 1956 **Auctions, Games, Information:** Luca & Raiffa, 1957; Modigliani & Miller, 1958; Miller, 1977; Myers, 1977, 1984b; Myers & Majluf, 1984; Titman, 1984	**Dividend Policy:** Miller and Modigliani, 1961 **CAPM:** Sharpe, 1964; Linter 1965; Mayers, 1972; Merton, 1973) **Financial Distress:** Altman, 1968, Warner, 1977 **Event Analysis:** Fama, Fisher, Jensen & Roll, 1969; Jensen & Roll, 1969 Brown & Warner, 1980	**Efficient Capital Markets:** Fama, 1970, 1991 **Conglomerates Performance** Weston & Mansighka, 1971; Weston, Smith & Shrieves 1972 **Critique of CAPM**: Merton 1972; Roll 1977 **Option Pricing:** Black & Scholes 1973; Merton 1973a; Rubinstein 1976 **International Finance**: Solnik 1974; Adler & Dumas 1982; Levi 1983; Solnik 1991 **Contingent Claims Analysis:** Brennan & Schwartz 1978 **BOP:** Sharpe 1978; Cox, Ross & Rubinstein 1979; Randleman & Bartter 1979 **APT:** Ross 1976; Roll & Ross 1980; Bower, Bower & Logue 1984; Chen, Roll, & Ross 1986 **Financing Contracting**: Smith & Warner 1979; Emery & Finnerty 1992	**Corporate Control and Restructuring**: Jensen & Ruback 1983; Weston & Chung 1983; Chung & Weston 1982 **Financial Strategy:** Myers 1984a **Synthetic Securities:** Cox & Rubinstein 1985 Synthetic Securities: Cox & Rubinstein 1985 **Financial Engineering:** Finnerty 1988; Smith & Smithson 1990
Source: From Weston (1994): A (relatively) brief history of finance ideas p. 13					

Weston (1994) locates the emergence of different ideas in finance in major socio-economic developments. For example, he argues that during the early 1950s the finance managers of the organizations were forced to put major emphasis on cash conservation due to rapid industrial growth and relative depression in equity market. The struggle for value maximization and profitability required cash flow management and as such cash budget

forecasting was developed to cater to the problem. He similarly provides contextual analysis of the 11 different areas within finance from the early 1900s up to the 1980s.

The first step in studying institutionalization guided by Space, Text and Practice is to look at the archive to establish the standard history. As argued earlier in the Introduction, the standard history is however criticized by Foucault and other historiographers for their lack of rigor in establishing the politically contextualized analysis of events. Standard history is usually a chronological account of events that lacks the politics and power relations involved in institutionalizing one discourse over other. The standard history also helps us establish our "pragmatic stance" (Dreyfus & Rabinow, 1982; Kearins & Hooper, 2002) in relation to the archive.

Foucault's studies have been about the paying attentiveness to the socio-political mechanisms through which he would produce "history of present". I capture the "economies of power" by arbitrarily dividing the discourse into its three facets, i.e. Space, Text and Practice. The reason for dividing the discourse, as argued earlier, is to understand the construction of the subject position. I argue that through studying the standard history we can find the Space, Text and Practice specificities through which we come to know ourselves. Once we establish and study the standard history, the next step is to search the archive for the marginalized and localized knowledge. This is where the Space, Text and Practice guidelines can be utilized for establishing the discourses of the time.

For example, for the writing of a Foucauldian inspired search for the history of institutionalization of cash budget forecasting we will need the data from the archive to establish the Space, Text and Practice facets of the discourse. Thus by adopting the definition of Space, presented earlier in the section, we will be looking for the corporate, legal, regulatory and managerial discourses which are directly relevant to the case. However, Foucauldian studies have not been about just the directly-related phenomenon as instead he

was interested in understanding the relations in totality. Thus, we might also be looking at the securities market and the discourses it has about the cash flow stability and profit of a corporation/firm. In addition to the above, we will also be interested in knowing about the discourses surrounding art, science, gender, politics and other socio-political conditions of the geographical location of the theory.

However, as argued earlier, institutions manifest their power through setting the norms. The written and unwritten norm or *the* standard response, which I call Text in the vocabulary that I adopt for this thesis, is the second facet that needs to be searched for in the archive. Since, we are here talking about an academic activity that establishes the cash budget forecasting theory, we need to search for the norms for a teacher and researcher, or the norms and expectations associated with a role from the discourses generated by experts. It is usually through the experts that we come to understand the expectations associated with a role. Thus, to search out for the Text facets of the discourse, we will want to look at the theories and norms associated with the Space, such as the guidelines provided by regulatory bodies, journals and book content of the time etc.

Lastly, we need to look for the Practice to bring back the totality of the discourse and "economies of power" to understand the socio-political environment of the time when a discourse is generated. As argued earlier, the subject position is a combination of Space, Text and Practice that an institution promulgates. As discussed in the Introduction chapter, historiographers such as Foucault are cautious of the tendency to utilize a current understanding of the historical events (Dreyfus & Rabinow, 1982; Kearins & Hooper, 2002). Therefore one needs to look for the practice of the working capital management that existed in the 1950s as the current practice of working capital would be different from the practices of the day.

Once the data has been collected based on the "pragmatic stance" taken on the archive and through the Space, Text and Practice, the last phase of completing the study is to write the output. Foucault was not interested in presenting the totality of history, but rather his interest has been to produce a history of that which, according to Dreyfus & Rabinow (1982) is a:

> *"Self-supporting 'circular project' which Foucault acknowledges all interpretations requires, the investigator owes account of why the practices he describes should produce the shared malaise or contentment which gave rise to the investigation"* (Dreyfus and Rabinow (1982, p. 200) as quoted in Kearins & Hooper, 2002, p. 739).

Thereby the purpose of a Foucauldian institutionalization is not to produce a detailed chronological account, but to produce an account of how the relations between the three facets of the discourse can be utilized for producing the product. The purpose of Foucauldian institutionalization is to analyse power relations and how they lead towards the creation of objective *truths.*

Chapter 5: Number Tells it All: How Statistical Methods Came to Dominate Academic Finance

5.1 Introduction

As discussed earlier in Chapter One, the knowledge of what is now known as "traditional finance" originated as an off-shoot of the institutional understanding of economics. It was descriptive and explanatory in nature, mostly outlining the day-to-day capital structure, dividend and other financial decision making based on experience that had no claims to generalizability of its outcome (see for example the discussions by MacKenzie, 2006; McLean & Jones, 2007; Weston, 1966, 1967; Whitley, 1986b). In its initial state it was much different from what we now recognize as "modern finance" i.e. an abstract theoretical knowledge which claims to produce generalizable conclusions through statistical and other scientific techniques of data analysis. The boundaries of the discipline have changed profoundly during the past few decades. This is so much so that the celebrated work of the day appears nowhere in the review of financial knowledge done by Weston in 1966 and the celebrated author of the time, Arthur Stone Dewing (according to Weston, 1966), and has no influence on the method or methodology of today's finance.

Any attempts at evaluating the history of finance have been actively discouraged by the proponents of finance as a waste of *precious* time that could be utilized to study the *Puzzles*. For example, before agreeing to publish the book by Frankfurter and McGoun (1996) one of the publishers sent a survey out to check the feasibility of the project with the finance academics. These responses were quoted anonymously by them as part of the preface to the book to show the *arrogance* of finance. Below is one such response:

> *"In fairness to the authors, I am not sure what it is they want to do. For example, their proposal begins by belabouring the fact that Weston's 'Scope and Methodology of Finance' is out of date. Few students and faculty members are probably aware of this book nowadays; so I wonder why it is considered a central deficiency.*
>
> *... I distinguish 'scope and methodology' from theoretical paradigms. For example, I would consider the study of capital markets to be part of the scope of finance; and, the use of statistical methods as part of the methodology. Likewise, I would consider the 'efficient market' to be a central paradigm of modern finance. Now if the authors are suggesting that psychological aspects of behaviour should be included within the scope of financial theory, I don't think that such an earth-shaking or even controversial notion; certainly the main premise of agency theory is that the behaviour of the agents may be at odd with the preference of the shareholders...*" (Comments of referee #4 on project "towards finance with meaning" by Frankfurter & McGoun, 1996, pp. xvii-xviii).

If we interpret the above quote, we find that for a mainstream finance academic the review of scope and methodology has no value. The fact that Weston (1966) is no longer taught by itself implies that academics no longer wish to consider where their scholarship is headed towards. The *normal* flow of knowledge, i.e. textbooks and journal articles, produces exactly what the scope and methodology of finance should be and its *legitimacy* and *direction* must be taken-for-granted, perhaps referring to the idea of paradigms as introduced by Kuhn (1996). Paradigms in scientific research being "the established model or pattern" argues Kuhn (1996, p. 23), gain their acceptance "because they are more successful than their competitors" (Kuhn, 1996, p. 23), and this normal flow of knowledge through journals and books helps us understand the phenomenon more *effectively* within the established paradigm. In other words, for finance academics a set boundary (paradigm) already exists that constitutes the totality of the field and through these boundaries scholars can visualize both the directions and the scope. Any attempt that tries to examine the flow of knowledge outside of the *paradigm* is thus useless. The referee in the quote above presents agency theory (referring to Jensen & Meckling, 1976) as an alternative to positivism. Agency theory, by discussing the behaviour of managers, fills any gaps in the *paradigm.* In short, the quote

epitomizes finance as something which is impervious to critical evaluation. It represents the institution of academic finance as fully evolved, where critical analysis and critique do nothing beyond reproducing what is already apparent.

The history of an academic field, as Kuhn (1996) argues, can provide us with an understanding that could "produce a decisive transformation in the image of science by which we are now possessed" (p. 1). Earlier academics in mainstream finance, such as Lister (1978) and specifically Weston (1966, 1967, 1981, 1994), were of the opinion that a review of history can help in both understanding and progressing the knowledge further. Academics need to take a "pause for breath and for consideration", argues Lister (1978, p. 1), because of "the speed of development … the limit of the scope and content, and … frame of reference" (p. 1). Similarly, Weston (1994) argued that "historical perspectives are particularly useful in comprehending the new concepts and ideas that have emerged in rapid succession in recent years" (p. 7).

The recognition of importance of history towards understanding academic finance is, however, not widespread specifically among mainstream academics and as such the attempts at comprehending the history, until very recently have been limited.[34] Only a few sources are readily available including Baskin and Miranti (1997), Brennan (1995), Cooley and Heck (1981), Frankfurter and McGoun (1996), MacKenzie (2006), De Goede (2009), Weston (1966, 1967, 1981, 1994) and Whitley (1986b), along with some journal articles that reproduced the discussions taking place between academics to identify the borders for finance to accommodate its changing *nature*.[35]

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[34] Specifically since the establishment of Social Studies of Finance.

In this chapter, I will be developing an institutional history that builds on the archival resources to present the historicity in the subject position promulgated by modern finance. As detailed in Chapter One, the current subject position promulgated by finance seeks to invoke statistical logic as the main acceptable standard through which the reliability and usefulness of a theory can be judged. The thesis as a whole is an attempt to answer the question of *How* raised in Chapter One, and this chapter offers an answer to the first of the three questions that I raised in Chapter Four about the *How* of finance i.e. "What factors contributed towards its origin and how its boundaries are worked out".

5.2 The Standard History of Academic Finance

Before developing the institutional history of academic finance, that will bring out the ruptures, discontinuities, interruptions, displacements and politics involved in the seemingly linear evolution of the subject matter of finance in its transformative phase between 1940s and 1970s, I will briefly present the history that a reader would receive from the archive. The purpose of conducting this study is to understand the chronology to establish *the* pragmatic stance (Dreyfus & Rabinow, 1982; Kearins & Hooper, 2002) and the *periodization* (Skalen et al., 2008). Developing this *standard* history is important both to understand and bring into light the turning points to locate key Space, Text and Practice facets of the discourse. As explained in Chapter Four, the three facets of discourse, i.e. Space, Text and Practice, provide us with an account of the characteristics of the subject position being promulgated and through locating the historical changes in subject positions we can study the changes in institutions.

The emergence of finance as an *independent* discipline of study is usually associated with the spread of business schools formed essentially for training managers to support the growing requirement for corporate managers (Augier & March, 2011; Khurana, 2007; McLean & Jones, 2007; Solomon, 1966). At that time the knowledge of finance was concerned with explaining, describing and documenting complexities of long-term fund-raising by corporations and firms in capital markets (Ardalan, 2008; Baskin & Miranti, 1997; Kavesh et al., 1970; Whitley, 1986b). It included topics that covered capitalization of companies, financial organization and operations of a firm and would include an analysis of financial sectors such as investment banks and stock exchange operations (MacKenzie, 2006). The main purpose behind finance study and research was informed by a search for best practices.

Unlike other established field of studies of the time such as medicine, economics and accountancy, finance was considered neither a profession nor an elite discipline of study. It relied on books or journals of other established disciplines such as the *American Economic Review*, *Journal of Business*, *Quarterly Journal of Economics*, *American Academy of Political and Social Sciences* and *Journal of Accountancy* for its publications. According to Kavesh et al. (1970), this lack of importance and prestige led to dissatisfaction among finance faculty and researchers. It was therefore decided among interested members at a conference held by the American Economic Association in December 1939 at Philadelphia that an independent association would be created to cater for the needs of finance faculty under the banner of the American Finance Association. The formal announcement of this new Association was made in December 1940 and Dr Kenneth Field was elected the first president of the group. In the following years the Association launched its own journal under the name of *American Finance* in 1942 which was, however, discontinued after publishing two volumes (volume 1, 1942 and volume 2, 1943) due to World War II. After the war the

Association decided to publish a journal under the name of *Journal of Finance*, with its first volume printed in 1946.

Researchers in the history of finance put the 1950s as the start of the transformation of business finance from descriptive to abstract theoretical discipline. It was the discourses and rhetoric of that period that would eventually define the boundaries of what constitutes modern finance and what is/should be excluded from the discipline. The following two decades then produced the theories that now define the basis of financial knowledge. As stated earlier in the section before this transformation, finance was a "rule of thumb" based on knowledge, with books growing in size as they tried to capture the different aspects of financial decision making, so much so that two volumes were required for the defining work by Arther Stone Dewing (whose book was identified as chief textbook in finance in review of scope of methodology of finance done by Weston (1966)) by the 1950s. In the following two decades the shape of the field completely changed and theories that were being promulgated and produced had claims to truth and generalizability. In this period new innovative theories were developed by finance academics. The most important among them were:

- portfolio selection theory by Markowitz (1952) in which he argued that there is an efficient frontier among the set of portfolios that can be selected by a "rational" investor, and this frontier is the best selection given the investor circumstances;
- the capital structure irrelevance theory developed by Modigliani and Miller (1958) in which they argued that in a "perfect market" neither the total market value nor the average cost of its capital was affected by its capital structure (p. 268);
- the irrelevance of dividend in stock valuation by Miller and Modigliani (1961);
- the Sharpe (1963b) model of portfolio analysis, which later became the basis for Capital Asset Pricing Model (Sharpe, 1964).

- the Random Walk theory by Samuelson (1965) which was based on the Brownian motion, a physics model about suspended particles in liquid or gas modified to respect the limited liability of the stock-holder by making long random walks; and
- the Efficient Market Hypothesis (EMH) developed by Fama (1965, 1970) which stated that prices will always reflect all available information.

The diffusion and acceptance of these new ideas grew extensively during the 1960s and 1970s, and in later years two new journals were established to accommodate the growing literature of finance, namely the *Journal of Financial and Quantitative Analysis* or JFQA (first published in 1966) and the *Journal of Financial Economics* or JFE (first published in 1974).

In the years that followed these theories developed a strong following and have been systematically reproducing themselves to an extent that these are described as a "Kuhnian-type of paradigm" which dominates the finance field and whose legitimacy is impervious to criticism" (see e.g. the quote from referee 4 in Frankfurter & McGoun (1996) and also Whitley, 1986b, p. 175). There have been some alternative voices of dissatisfaction with the methodologies and assumptions of *modern* finance as early as 1970s, but they have yet to make any significant impact on the *progress* of the mainstream finance discipline.

The standard history is based on the assumption that an evolutionary historian would carry (see for example the discussion by Parker, 2004) and is mostly based on the reading of MacKenzie (2006) and Kavesh et al., (1970). The reason for the exercise, as described earlier, is that through establishing standard history we can identify Space, Text and Practice facets of discourse that needs to be searched for in the archive. By locating the Space, Text and Practice facets of discourse within the archive we can develop, from there onwards, an understanding of the present subject position originating from the institutions of academic

finance. This institutional history of the subject position provides us with a better understanding of the changes in terms of the displacements, disruptions and politics of change beneath the continuity of thought. While the standard evolutionary histories provide us with a narrative that is dominated by a clear and direct goal that has been achieved by the institution, the history guided by Space, Text and Practice facets can elaborate on the differential relations between institutions in creating and *disciplining* the subject position promulgated by the institution. The following section provides a tentative list of the relevant Space, Text and Practice facets of discourse that can be utilized for the *meticulous* search of the archive to understand the history.

5.3 Locating Space, Text and Practice from Standard History

> *"Beneath the great continuity of thought, beneath the solid, homogenous manifestations of a single mind or of a collective mentality, beneath the stubborn development of a science striving to exist and to reach completion at the very outset, beneath the persistence of a particular genre, form, discipline, or theoretical activity, one is trying to detect the incidence of interruptions. Interruptions whose status and nature vary considerably. There are the epistemological acts and thresholds described by Bachelard: they suspend the continuous accumulation of knowledge, interrupt its slow development, and force it to enter a new time, cut it off from its empirical origin and its original motivations, cleanse it of its imaginary complicities; they direct historical analysis away from the search of its silent beginnings, and the never-ending tracing-back to the original precursors, towards the search for a new type of rationality and its various effects. There are the displacements and transformations of concepts."*
>
> (Foucault, 1970 as quoted by Baker, 2011, p. 207)

It is difficult to analyse history for discontinuity because of its apparent flow of events which happen frequently and sometimes in obscurity. This job becomes especially difficult when one is dealing with the history of an academic field (see for example Foucault, 2002, pp. 51-85 discussion about Representing). Academic fields, or the history of thought in Foucault's terms, almost always have an appearance of a continuous knowledge creation that

evolves to cope with deficiencies in the previous understandings of the phenomenon of interest. The same is the case with academic finance, where we are presented with an argument (see for example Baskin & Miranti, 1997) that finance had its humble beginning in the pre-historic world that is now evolved *enough* to be able to provide a clearer understanding of the complex world around us. This chapter is an attempt to show that the history of academic finance is, on the contrary, full of displacements resulting from violent and abrupt turns and turnovers. Its present state is the outcome of highly political discussions that resulted in allowing one discourse (statistical methods) to marginalize the other (descriptive analysis). Through this chapter, I intend to refute the idea that evolution in knowledge is associated with advances in technology, data collection techniques, and sophisticated statistical methods (see for example the discussion in Weston, 1967). I intend to politicize the subject matter of modern finance, which in turn may help overcome the subject position that it promulgates for the finance lecturer discussed in Chapter One.

As argued earlier in Chapter Four, this thesis proposes a method of analysis that will both facilitate data collection for and help in developing the institutional history, which incorporates the interruptions lying at the centre of what appears to be continuity and homogenous manifestations. I argue that by going through the *periodized* version of the standard history we can locate the three facets of discourse i.e. Space, Text and Practice. These facets of the discourse and their relations to the subject position, as discussed in Chapter Four, can help us develop an informed view of the historical establishment of the subject position an institution promulgates. In other words, by taking the pragmatic stance established through the standard history we can locate the discursive relations between Space, Text and Practice facets of a discourse to understand and analyse the moments of interruptions and displacements. The following are the key Space, Text and Practice facets of the discourse that will be utilized in developing the institutional history of academic finance.

Based on the methodology adopted for this study, in the context of the overall question that this thesis seeks to understand, i.e. *How* as raised in Chapter One, this chapter is a study of the Space facet of the discourse for the subject position that academic finance promulgates.

5.3.1 Space

In terms of Space, the areas that can be seen as having importance for analysis will include the geographical and governance location, i.e. business schools of United States of America (US onwards). My concern will remain specifically about how government and other institutions interacted with business schools in post-World War II and during the cold war period. I seek to understand what the expectations were associated with business schools from the perspective of government, businesses and society. For example, Khurana (2007) argues that universities, specifically business schools, served as training schools for the armed forces. Business schools were involved in helping with development of war tools such as pattern bombing (Khurana, 2007). As well, universities such as the Harvard Business School required their students to accept either a commission in the forces, if offered, or work in war-related industries (Khurana, 2007). The Space facet of discourse also includes an analysis of ideological inclination, gender and race relations, religion and technological aspect of the geographical location.

In other words, the Space facet of discourse is a discursive field as defined by Peci et al., (2009) discussed in Chapter Four.

5.3.2 Text

In terms of the Text facet of the discourse, one can identify for analysis the effects of the success of “scientific” methods that were developed during the war. The success of mathematics in dealing with the military problems (logistics, fire control and pattern bombing), and advancement in the computational effectiveness and efficiency, encouraged

the use of statistical logic (Smiddy & Naum, 1954). This success of mathematical methods led to discussion among the researchers that “science”, particularly the mathematical methods, could be the answer towards the ever-present problem of improving managerial efficiency (Whitley, 1986b). Government as well as philanthropic organizations in the US, such as the Ford Foundation and Carnegie Foundation, actively pushed and sponsored this new “scienticism” in social sciences. This political interference resulted in increasing demand for scienticism in many academic fields. Previously unscientific fields of social sciences such as sociology, psychology, economics and management were now aspiring to become more “scientific” in their nature than they were ever before. Scienticism reached its epic growth during the phase. Social sciences that were previously “political” increasingly aspired to be “scientific”. According to Khurana this reached its limit in the period up to the point that “collected data was the primary way to advance a science of society … and the best evidence was quantitative and statistically reliable” (Khurana, 2007, p. 220).

As described earlier in Chapter Four, the Text facet of the discourse is the norms and standards through which we operate within an institution. By looking at the example presented in the previous paragraph we can see that the norm for developing academic knowledge was changing from a descriptive to *scientific* method. This change in standard for testing the effectiveness of knowledge will be analysed for developing the institutional history.

5.3.3 Practice

As described earlier in Chapter Four, the practice facet of the discourse is the response that the subject position exercises based on the Space and Text. For example, in the Practice facet of discourse in the study of the period one can identify for analysis the changing role of managers. In a post-war society, “managers were described as *system designers, information processers,* and *programmers* involved in regulating the interfaces

between the organization and its environment" (Khurana, 2007, p. 207 emphasis in original). In addition, the government started to be actively involved in controlling and manipulating the economic environment, e.g. introduction of barriers to entry and regulated pricing and limiting vertical and horizontal mergers. In the light of government regularities, corporations were no longer able to expand in their own industries, and thus to grow they required to diversify their businesses (Khurana, 2007). In a diversified business world the role of context-specific knowledge based on best practices of industry reduced exponentially. This resulted in discourses that would argue for alternatives to practice-based specific knowledge i.e. a knowledge that will be more generalizable and can be used under different circumstances.

Practice, as described earlier in Chapter Four, is the act of doing that conforms to the Text of an institution within its Space. The Practice facet in the context of this chapter will be related to the changing role associated with the corporate manager as well as the changing role of the faculty in business school towards the training of business graduates.

After presenting the standard history, and identifying the key Space, Text and Practice facets of the discourse that needs to be searched for in the archive, the next step is to present the institutional history based on the *pragmatic stance*. In the rest of this chapter, I will be presenting an institutional analysis of academic finance guided by the Space, Text and Practice facets of discourse and interpreted through Foucault's power/knowledge concept. As discussed earlier, through this chapter I seek to understand the first of three questions that I raised in Chapter Four regarding understanding the *How* of finance.

5.4 The Institutionalization of Statistical Methods in Finance

> *"The situation appears to call forth four tentative conclusions regarding the importance of the study of finance working in the financial fields of*

> *business and industry: 1). The financial fields require little or no specialization in training and can thus take lower-grade students at lower-pay schedules; 2). The financial fields draw specialized personnel from fields both allied to or foreign to finance, at least for the higher pay ranks; 3). Firms in the financial fields prefer to train their own specialists, if any be needed, and little financial knowledge is required as preparation for such training* … (Calkins, 1949, pp. 244-245)

> *In his paper Whitley (1986b) cited two articles one each from New York Times and Institutional investor that reported employability of finance academic and recent graduates 'at very high salaries' by corporations for their expertise and understanding (although flawed) of the financial market operations (1986b, p. 181). And more recently Judge Business School located at Cambridge University reported on the performance on their Master of Finance (MFin) class of 2010/11, as 91% employed (while 6% of the remaining were undertaking further studies) in industries varying from 'Investment banking, financial services in non-financial companies, financial consulting, public sector finance, commercial and retail banking, asset management and financial accounting/law'"* (Cambridge Judge Business School, 2012).

The two scenarios above have a striking contrast in terms of *skills* sought by finance industry and the employability of finance graduates. Calkins's (1949) analysis presents a grim future for students who elect to study finance as a major in their degree. They will be required to compete with candidates from other disciplines (in most cases, they will be the least preferred of the lot), whereas the article cited by Whitley (1986) from the *New York Times* and the *Institutional Investor* and the current career outcome study by the Judge Business School present a completely contrasting scenario in which the future of the finance graduate is not only secured but also is at much higher pay rates than normal.

The following is an attempt to provide a political explanation as to what happened between the two periods (1940s and 1970s-present) to bring academic finance into its current form. It is an attempt to understand the questions which revolve around what went so favourably for academic finance that changed their portfolio from least important to highly desirable? Is it an apolitical development as argued by Weston (1994), or is it indeed a history that only on the surface shows continuity?

Foucault, as described earlier in Chapter Three, argues that “there is no power relation without the correlative constitution of a field of knowledge, nor any knowledge that does not presuppose and constitute at the same time power relations” (1977, p. 27). As stated earlier in the chapter, sorting back the history of any academic field can be a daunting job as the changes occurring in there are both frequent and rapid. What we now recognize as the boundaries of one discipline might not be there a decade or so earlier (for example, corporate governance). Of course there can be some exceptions such as medicine, and more recently academic finance, whose boundaries are somewhat broadly recognizable over time.

The following analysis is presented in three sections that study the de-institutionalization of the *old* finance, the opening for an alternative subject position and institutionalization of the *new* subject position. This break-down into three sections is consistent with the assumption of most institutional theorists that seek to understand the process of institutionalization (see for example the discussion by Lawrence & Suddaby, 2006; Oliver, 1992).

5.4.1 The De-Institutionalization of Finance

As described earlier and in Chapter One, the transformation of academic finance is usually associated with the 1950s. Calkins (1949) reported that finance, by that time, had already been considered an important part of the curriculum in all of the 58 accredited business school by the American Association of Collegiate Schools of Business (AACSB). All students (irrespective of specializations, if any) were required to undergo at least six to nine semester hours of the study of finance subjects, while the students who intended to specialize in finance were required to undergo 18-20 hours. The non-specialization courses included titles such as money and banking, business or corporate finance and problems in corporate finance. The courses for specialization included public finance, bank administration, business cycle, credit and collections, security analysis, analysis of financial

statements, monetary theory or insurance. Calkins goes on to classify these courses under two broad areas that he calls economic theory and *practical* fields.

Subsequently, the classifications system of areas in finance changed significantly. In Weston's (1994) review of finance, academic financial knowledge is classified into 11 broad categories:

1. Investment decisions
2. The efficient market hypothesis
3. Portfolio decisions
4. Risk and return
5. Pricing derivative securities
6. Capital structure, dividend decision, optimal contractual choice
7. Valuation and growth opportunities
8. International finance
9. Agency, auctions, games, information, re-contracting
10. Takeovers, governance, and control
11. Short-term financial management.

This stands in contrast with the two categories identified by Calkins (1944). The difference in the classifications assigned by Calkins and Weston can be attributed to what Foucault (2002) calls the discourse of power/knowledge. The identification made in Calkins (1949) clearly shows a dearth of language that can be useful in describing/identifying at the time to classify the *branches* of finance, whereas by 1994 Weston had the identifying vocabulary to discuss the history of finance. The model structures (such as the one presented by Weston (1994)) define and differentiate the disciplinary boundaries from other disciplines and thus become a discourse on their own (Foucault, 2002). The language *retrospectively* used to define boundaries provides a condition of possibility for identifying the previously non-recognizable knowledge (such as the one proposed in 1952 by Harry Markowitz "portfolio selection" that is now considered an important theory) to become part of the discipline. For example, in his interview with the American Finance Association (also reported in MacKenzie, 2006 and elsewhere), Harry Markowitz describes his defence of his thesis in economics in these words:

> *"So about five minutes into my defence, Friedman says, well Harry I've read this. I don't find any mistakes in the math, but this is not a dissertation in economics, and we cannot give you a PhD in economics for a dissertation that is not in economics. He kept repeating that for the next hour and a half … At one point he says, you have a problem. It's not economics, it's not mathematics, it's not business administration, and Professor Marschak said, 'It's not literature'* (The AFA, 2008b, p. 5).

Adding to it, I would say that unfortunately the thesis was not in finance as well or at least the finance of the time.[36] So if the research was not related to finance, how it came about Markowitz ended up publishing it in the *Journal of Finance*. When asked he commented on his decision to publish the paper in this journal:

> *"... It's a complete blank, why I decided. But somehow it seemed to me that this little 1952 article was something that belonged in The Journal of Finance. It was about finance"* (The AFA, 2008b).

It was only made possible through the subsequent identification/classifications that Weston (1994) gave it recognition as a very important work in the field of finance (Portfolio Management in his system of classification). As compared to its initial decade where it is cited 11 times in total until 1965, the paper becomes a source of inspiration for the *new*

[36] Web of Knowledge shows that until 1965 the paper was cited a total of 11 times – distributed as follows:

Times cited	**Journal name**	**Year**
1	Journal of Political Economy	1954
		1957
		1957
3	Operations research	1962
1	Journal of Business	1957
1	Review of Economic Studies	1957
1	Economic Journal	1961
1	Accounting Review	1964
1	Scottish Journal of Political Economy	1964

Source: From Web of Science – citation analysis available at: http://apps.webofknowledge.com/summary.do?product=UA&search_mode=CitationReport&qid=11&SID=N158fFJIIL4HkjFpGo9&page=1&action=sort&sortBy=PY.A;LD.A;SO.A.en;VL.A;PG.A;AU.A.en&showFirstPage=1

finance academics cited 10 times in the year 1967 rising to total citations of 56 between 1967 and 1971.

The language not only serves the function of boundary identification (power/knowledge) but it also increases the visibility of a discipline. Foucault (2002, p. 88-89) argues that the verbal signs (language) give the ability to name a phenomenon that in turn produces the opportunity for something to become *discourse.* It is always easier to follow and understand (and as such classify and categorize) something that can be named as opposed to something which is unidentifiable. “Knowledge and language are rigorously interwoven,” Foucault (2002, p. 95) writes, and “they share, in representation, the same origin and the same functional principles; they support one another, complement one another, and criticize one another incessantly.” Both knowledge and language thus actualize the legitimacy of each other through the process of (re)production and critique, and as such provides us with a model that shows an academic field as having a coherent and concrete structure, which otherwise is a collection of broken and displaced thoughts (see for example Townley, 1993).

As described earlier in Chapter Four, Practice is the *acceptable* response based on the Space and Text associated with an institution’s subject position. Thereby, the Practice of teaching the courses and contents offered at the time of Calkins were considered *appropriate* as the purpose of the Space of business schools was to train general managers for the large corporations (Khurana, 2007; MacKenzie, 2006; McLean & Jones, 2007; Whitley, 1986b). The Text or the norms associated with these general managers were to know how to run *the* business. However, the survey by Calkins (1949) itself and other discussion on the topic in the period (see for example Bosland, 1950; Calkins, 1950; Halley, 1950; Pearson, 1950; Upton, 1950) reflected a growing displeasure with the content that was taught at the schools. Both the Practice of teaching and the Space of business schools were being criticized for their lack of *professionalism*.

These concerns over the content of the discipline, in the broader Space or the discursive field context, can be associated with the overall change happening in the American society in post-war *adjustments*. The end of World War II brought with itself a major concern over the future of millions of workers in war-related industries. Both these workers' and veterans' transition from war were considered an important aspect of recovery. Learning their *lessons* from World War I, the government was determined to avoid mass unemployment, especially in the light of the cold war, so as to *preserve* the American way of life (Khurana, 2007). Faced with the cold war, the United States government was keen to establish and maintain a stable and strong middle class. This was understood to be achievable through higher education. The *maintainability* of the strong middle class was generally recognized to be associated with *opportunities* for higher education, which would help citizens to be satisfied with their life.

Consequently at the end of war, higher education was considered to be one of the important ways to achieve a smooth transition from the Practice of total war. There were voices as early as 1942, growing even stronger over time, trying to establish the importance of education and educational institutions in achieving the transition. For example, Zook (1942) reminded the government that:

> *"We are engaged in total war. Total war implies that every social institution, including the educational system at all levels, is deeply affected the course of events … it means that all aspects of the educational system, particularly the colleges and universities, have an indispensable contribution towards winning the war. The longer the war lasts the greater will be its effects on the colleges and universities and the more important should be their contribution in the final victory … Hence in all of our planning for post-war reconstruction the institution of higher education should be expected to play an exceedingly important role as to the preparation of men and women for various forms of professional and specialized service at home and abroad, and for the training of citizens with a keen appreciation of international as well as domestic problems"* (Zook, 1942, pp. 274-277).

Zook (1942) in his paper tried to point out the *realities* associated with total war. He expressed his concerns about the effects that Practice of war had on the Space of educational institutions. The concerns associated with involvement of and importance of educational institutions towards war and post-war society, coupled with the ambitions to avoid unemployment, caused the government to bring in the Servicemen Readjustment Act of 1944 (informally known as GI Bill). This Bill entitled veterans to free higher education at any university/college they could secure admission in (Khurana, 2007).

Consequently, immediately after the war the government started spending huge amounts in education. The table below provides some relevant statistics about spending in education.

Table 5.1: Expenditures of educational institutions related to the gross domestic product by level of institution: Selected years 1929-30 through 1980

Year	GDP (in billions of current dollars)	School year	Expenditures for education in current dollars			
			All educational institutions		All post-secondary degree-granting institutions	
			Amount (in millions)	As percentage of GDP	Amount (in millions)	As percentage of GDP
1929	$103.6	1929-30	---	---	$632	0.6
1939	92.2	1939-40	---	---	758	0.8
1949	267.2	1949-50	$8,494	3.2	2,246	0.8
1959	506.6	1959-60	22,314	4.4	5,601	1.1
1961	544.8	1961-62	26,828	4.9	7,155	1.3
1963	617.8	1963-64	32,003	5.2	9,178	1.5
1965	719.1	1965-66	40,558	5.6	12,509	1.7
1967	832.4	1967-68	51,558	6.2	16,481	2.0
1969	984.4	1969-70	64,227	6.5	21,043	2.1
1970	1,038.3	1970-71	71,575	6.9	23,375	2.3
1971	1,126.8	1971-72	76,510	6.8	25,560	2.3
1972	1,237.9	1972-73	82,908	6.7	27,956	2.3
1973	1,382.3	1973-74	91,084	6.6	30,714	2.2
1974	1,499.5	1974-75	103,903	6.9	35,058	2.3
1975	1,637.7	1975-76	114,004	7.0	38,903	2.4
1976	1,824.6	1976-77	121,793	6.7	42,600	2.3
1977	2,030.1	1977-78	132,515	6.5	45,971	2.3
1978	2,293.8	1978-79	143,733	6.3	50,721	2.2
1979	2,562.2	1979-80	160,075	6.2	56,914	2.2
1980	2,788.1	1980-81	176,378	6.3	64,053	2.3

SOURCE: US Department of Education, National Centre for Education Statistics available at: http://nces.ed.gov/programs/digest/d11/tables/dt11_028.asp

As can be seen in the table spending in education sector increased yearly up until 1975 and investment in higher education, in particular, grew significantly between the years 1939 to 1949. Overall the spending in education increased significantly between 1929 and 1980. The spending to GDP ratio for higher education, the concern of argument here, increased from 0.6% in 1929 to 2% by the year 1969. From the table, it is evident that to overcome the expected unemployment, and for achieving the smooth transition from the Practice of war, the government increased spending in education.

According to Phelps (1949) business education had always remained a favoured area for students seeking a professional education. Phelps (1946) through a survey estimated that business was the second best area of *specialization* for students seeking to gain professional training. According to him in the "school year 1940-41 one out of every fifteen regular students taking some form of college work was enrolled in an accredited professional school of business administration and probably one out of ten had chosen business administration as a field of concentration" (Phelps, 1946, p. 184). This demand for business education in general along with the GI Bill offer resulted in a huge influx of students in the universities. Business education, already a preferred specialization, witnessed massive enrolments as evident from the table below:

Table 5.2: Degrees in business conferred by degree-granting institutions by level of degree: Selected years 1955-56 through 1980			
	Bachelor's degrees	Master's degrees	Doctor's degrees
Year	Total	Total	Total
1955-56	42,813	3,280	129
1957-58	51,991	4,223	110
1959-60	51,076	4,643	135
1961-62	49,017	7,691	226
1963-64	55,474	9,251	275
1965-66	62,721	12,959	387
1967-68	79,074	17,795	441
1969-70	105,580	21,561	620
1970-71	115,396	26,490	774
1971-72	121,917	30,509	876
1972-73	126,717	31,208	917
1973-74	132,304	32,691	922
1974-75	133,639	36,315	939
1975-76	143,171	42,592	906
1976-77	152,010	46,505	839
1977-78	160,775	48,347	834
1978-79	172,392	50,397	852
1979-80	186,264	55,008	767
Source: US Department of Education, National Centre for Education Statistics available at: http://nces.ed.gov/programs/digest/d11/tables/dt11_316.asp			

The high demand for business education can also be associated with the growing legitimacy of business school as the *accepted* training ground for business professionals/managers. As described earlier in the chapter, business schools served as training grounds for the military and had helped in developing many war tools (Khurana, 2007). This helped the schools to be viewed as the legitimate training centres for training

managers. US businesses, specifically large corporations in the Space of "Organizational Society" needed managers who would be able to take care of the business from day one. [37]

With the rise of demand and increase in the legitimacy of qualifications conferred by business schools, criticism also grew about the *properism* and *elitism* of the education offered therein. The old Practice of teaching vocational *tricks* to students started to be questioned based on the new Text of professional and higher education. For example, in his paper Robbins (1949) wrote:

> *"The preparation of young people for careers in business has become one of the major task of universities and colleges in the United States during the past two or three decades … yet the preoccupation of the business educators with the problems of curriculum has not kept pace with the growth in enrolment nor with the expanding responsibility of collegiate schools for preparation of the potential leaders in the study of and management of economic affairs in our complex society … in the new field of business education, too little attention has been paid to defining its place in university education; and too much reliance has been placed, on the one hand, on the liberal arts traditions, while overemphasizing, on the other, the strictly vocational preparation of the students"* (Robbins, 1949, p. 392).

Robbins (1949) suggested that the possible way out of this *non-professional* Practice of teaching in the Space of business schools would be to increase their emphasis on imparting scientific knowledge to students. It was a general recognition that emphasis on *professional* education would result in *advancing* the Practice of teaching. He argued for this change by calling the universities to ponder the question of what a university education should *look like*. For him the answer to this question lay in responding to the needs of the society, which was understood to be the Organizational Society. He argued that society needed scientific ways of managing organizations, and as such rather than relying on the available sources/faculty for

[37] Refers to immediate post-war period, when large corporations were considered to be the lifeline of American society. Krippner (2005) argues that the American society started to move away from being an Organizational Society to a Financialized Society in the 1970s.

teaching *outdated* vocational contents, the schools should look outside their current policies, in other words Text. Text is described earlier in Chapter Four as the written/unwritten norms associated with a Space that defines the Practice for the subject position. The combination of the three facets of discourse provides us with an account of the characteristics of the subject position.

The *old* subject position that was promulgated by the institution of business education was now coming into question, as the Space of business schools was now expected to confirm to the new Text of scienticism for improving upon the Practice of teaching. Robbins provided a clearer definition of the new Text that outlined what the university education in business schools should aspire to be. He argued:

> *"Clearly the professional education is education for a career, not a job. It is preparation for a life's work in which the urge for proficiency and competent performance of vital economic function takes precedence over personal aggrandizement in the mind of the practitioner"* (Robbins, 1949, p. 394).

In other words, for Robbins (1949) the Practice of teaching vocational tricks was no longer the acceptable standard or Text that the Space of business school should provide as it was based on training the students for a *job* and for him (1949) *higher* education should seek to train students for a *career*. Robbins was not alone in suggesting the required *improvements* in the institution of business education. This call for increasing *elitism* was coming from a variety of places and persons. For example, Lee Bach was another influential person who argued for an *elite* educational system that would be dominated by *scientific inquiry* rather than *vocationalism*. Bach (1958) in his paper provided a working explanation of how the Space of business education should go forward with the Practice of teaching. According to him "… business education should be focussed on training men not for the business world of today but for that of tomorrow – for 1980, not 1958" (Bach, 1958, p. 351).

Bach, while explaining the difference between career and job, argued that the students of today would take at least another 25 years to be in a position of decision making in organization and for them to be able to make a difference at the time, they needed to be prepared for a *career*. Their education should prepare them so they are trained in "thought process and not on particularized subject matter." He went on to suggest that "we must continually reach for those of broad and general applicability, with emphasis on how to use them effectively in widely varying situations rather than on detailed particular skills and techniques" (Bach, 1958, p. 352).

In other words both Robbins (1949) and Bach (1958) are suggesting that the *order* in society has changed. It no longer needed students who are trained in the descriptive and day-to-day working of business but are able to cater for problems beyond the routines of business. They argued that based on the new Space, Text and Practice facets of discourse associated with the institution of business education, the contents of contemporary curriculum did not meet the needs of contemporary organizations. They called on schools to consider changing their curriculum in a manner that the courses offered were analytical and quantitative in nature rather being descriptive. The change in subject matter of business schools' curriculum, according to them, was required as the *old* Practice of teaching and research was no longer sufficient to meet the needs of business graduates.

Perhaps the *strongest* voice having similar concerns came from the influential report by Gordon and Howell (1959) who started their book by re-emphasising the need and importance of business education:

> *"Higher education for business in America is essentially a product of the twentieth century. It represents the response of a democratic society to the education needs of its industrial system. In recent decades business education at the college and university level has grown at a phenomenal rate. At present in the United States one out of every seven degrees awarded by institutions of higher education is in business administration"* (Gordon & Howell, 1959, p. iii).

As argued earlier in Section 5.3, the Text of managers was theorized to have changed from a person who is responsible for a firm to a person who is the information processer and system engineer (Khurana, 2007). The new Text associated with the Practice of manager in the light of the discourse associated with the "Organizational Society" carried specific importance. The survival of society was theorized to be dependent upon the performance of organizations and an organization's performance was theorized to be dependent upon the performance of its managers. It was no longer a question of the survival of an organization that business education needed to cater for, but the survival of society depended upon business education (Khurana, 2007).

For the purpose of their report, Gordon and Howell (1959) conducted a thorough survey of the current state of business education and showed *great* dissatisfaction with the then Practice of teaching. They argued that the institution of business education is neither fulfilling the needs of current business practices nor does it have the ability to fulfil the need for the coming decades. Borrowing Foucault's (1977) terms, the Practice of teaching in the institution of business education based on the Text of vocationalism was being identified as *condemned* that which needed to be *disciplined*. Surveying or examinations carry special relevance in terms of the appropriate behaviour of the subjects (Foucault, 1977). Through collecting the information about the *good* and *bad* practices, surveys such as the one by Gordon and Howell (1959) produce the opportunities for subjugation and the control of bodies which in our case being the institutions of business education represented by the Space of business school having the Text of imparting vocational training that guided the Practice of teaching.

The Gordon and Howell (1959) survey established a detailed analysis of the state of affairs of business schools that emphasized the lack of *scholarship* in business education.

This lack is often associated with the failure on the part of regulatory authority, the American Association of Collegiate Schools of Business (AACSB, from here onwards) for business schools (Gordon & Howell, 1959; Khurana, 2007; Phelps, 1946).[38]

AACSB was established on 17 June 1916 by the deans of 17 schools (AACSB, 1966). At the time of its establishment its intent was not to regulate or more appropriately *discipline* the curriculum, but to set minimum standards for business schools and what should be the criteria for awarding degrees. Gordon and Howell (1959) had the following observation about the role of AACSB:

> *"Membership in the Association provides no 'guarantee of excellence'. It is 'merely' a certificate for a minimal and conventional kind of respectability. While the Association has served a useful purpose in helping to establish their minimum condition of academic respectability, thereby, narrowing the gap between the average and the poorest schools, it has not shown much 'leadership' beyond this; and it has done little to narrow the gap between average and the best. It has shown no leadership whatsoever in helping the best to become still better"* (Gordon & Howell, 1959, pp. 445, emphasis added).

The first *real* steps towards accreditation and standard setting to *discipline* the vocational nature of education were taken by the Association in 1959(AACSB, 1966).[39] The need for a disciplining body was *deemed* necessary so as to *effectively* manage the change in Practice of teaching. Foucault (1977, p. 174) argues that "the disciplinary gaze did, in fact, need relays", and in our case the AACSB was considered to be the provider of that *gaze* that would *discipline* the institution of business education. As noted in the previous paragraph, in its initial days AACSB was not only *unable* to produce results in its member schools but also *unable* to exercise the disciplining authority to control non-member schools. Business education was taught at colleges and high schools that were neither registered with AACSB

[38] The most recent name adopted by AACSB is The Association to Advance Collegiate Schools of Business.

[39] Arguably from pressures originating from political discourse of the *outside* such as the Ford Foundation etc.

nor accredited by them. Unlike medicine, engineering and law where the accreditation body exercised its authority over minimum standards for degree requirements and the quality of student intake, AACSB was considered to be failing in both. This failure was commonly associated with lack in regulatory capabilities, organization of AACSB as well as its *desire* for change. In other words, to work as an effective *gaze* the scholars and surveys of the time *condemned* the Practice of AACSB both through its Space as being *inadequate* with no *appropriate* structure to deal with the *complexities* of *modern* business education and the Text which was *limited* to only partial *control* over the institution of business education.

Gordon and Howell (1959) and other influential scholars of the time criticized the *abilities* of AACSB in providing the disciplinary *gaze* much desired for the purpose of disciplining the institution. In his paper Phelps (1946) strongly criticized the role of AACSB and proposed a *formal* organization and accreditation process. He argued that by doing so AACSB could ensure a *minimum* standard which would regularize and standardize the degrees granted by universities and colleges. Phelps (1946) identified seven different types of business schools and only one of the seven group was what he called "the fully accredited professional schools of business administration of college or universities grade" (Phelps, 1946, p. 189). According to him, AACSB should take steps to increase its control over business education and the schools, colleges and/or universities (which offered courses in commerce or business) and refusing to be part of AACSB should be delegitimized. He proposed a name change for AACSB and said that:

> *"The word 'collegiate' in the association's title implies that there are other schools of business. There are, but they should not be recognized, at least not in the title of this body. This is 'the' association of schools of business, to which all other are subordinate, and to which anyone would naturally look for guidance in matters of business education. It should so indicate by a succinct and inclusive title"* (Phelps, 1946, pp. 191, emphasis in original).

To sum up the discussion so far, we can see that the legitimacy of the subject position promulgated through the institutions of business education has been under question. As argued earlier in Chapter Four, we can take an account of the subject position being promulgated by an institution through the three facets of discourse. The old subject position of the institution of business education – through its three facets of discourse of the Space of business school, the Text of vocational training and the Practice of teaching and research – was theorized to be inappropriate in the new *order* of society. In other words, if we consider post-war American business schools and AACSB as the Space facet, the transition from total war, demand for business schools, student intake as Practice, and the introduction of the GI Bill and scienticism as the Text facet of discourse,[40] one can argue that the following sequence of relations contributed towards the de-institutionalization of the subject Position.

The post-war Space of America had concerns over the transition of institutions and millions of workers from the Practice of total war. To ensure a smooth transition from the Practice of war, the government introduced the GI Bill. Through the introduction of the Bill there was a considerable increase in the enrolments of business schools. The high demand for business schools attracted discussions concerning the standard of education and quality of the student intake, which in turn brought into question the ability and legitimacy of the regulatory authority to respond to quality control by the business schools.

The Space, Text and Practice facets of the discourse outlined so far in the chapter created the conditions which in turn helped in delegitimizing the taken-for-granted status of the then subject position of business education. However, the statistical turn in academic

[40] As argued earlier in Chapter Four, the division between the facets of discourse is both subjective and arbitrary. Thereby it may as easily be possible to classify the GI Bill to be Practice, similarly, the regulatory authority that I classify as Space here can be as easily classified as Practice as it was actively involved in regulating the business schools. The division is thus arbitrary and subjective, but helpful in both understanding the flow of direction as well as collecting data from the archive to understand the institutionalization.

finance was not entirely due to the direct influence of any of the discussions about the *quality* of education presented above. The statistical turn in finance can be associated with the influence exerted on business schools by government and philanthropic foundations and the increased demand for faculty to accommodate the expected enrolments. The opportunity for government and foundations to influence the direction of research and education at business schools arose from the inability of the AACSB to quickly respond to the changing socio-economic conditions surrounding business schools. The government of the time and the philanthropic foundations (such as the Ford Foundation, Carnegie Foundation and Rockefeller Foundation) were contributing large sums to the business schools for improving infrastructure as well as through *targeted* research grants. In order to *safeguard* the *investments,* they exerted direct power over what business schools should be doing through setting minimum standards and *ideals* that needed to be attained by schools to claim the funds. As we will see in the coming paragraphs, the concerns for quality of the education and directions of research had a profound influence on the institution of business education.

5.4.2 The Opening for Alternatives

The *failure* of AACSB in *regulating* the Space of business schools and the Practice of teaching and being the *gaze* to ensure standards provided openings for the government and other institutions to affect functioning of the business schools. As explained earlier, large corporations working through their managers (which were products of business schools and eventually the sole *proprietary* product) played an important role in the success of America and its allies in war. The Space of American society, which previously viewed these organizations negatively, was now more open to them. The war also provided an opening for the ignored area of social sciences, as it was now theorized to be as much a priority as natural sciences due to its role in organizing war activities. Unlike prior to the war, when the bulk of government and foundations sponsorship was concentrated in the area of natural sciences, the

social sciences was now becoming the *primary* area. The general discourses in society, through its Space, Text and Practice facets, were now providing a much better Space to social sciences, specifically business education. It was assumed that social sciences could provide *valuable* services during the cold war as it offered expertise that could sustain the corporate culture of America (Khurana, 2007; Whitley, 1986b). This increased the visibility of the Space of business schools, both during the war and in the post-war period.

The interest in education from the government brought with it funding, both in terms of increased student aid (a direct outcome of the GI Bill) and for improving infrastructure. The funding was aimed at providing targeted research in the *pressing* needs of Organizational Society. Besides the government, the funding also came from the philanthropic foundations that aimed to *advance* higher education. Although the Rockefeller and Carnegie Foundations were supporting higher education before the war, their interest specifically in business education grew after the war (Khurana, 2007). The late entrant to the *support* of higher education, the Ford Foundation, had a greater influence on the curriculum and research at business schools (Khurana, 2007; Tadajewski, 2009; Whitley, 1986b) through providing the Space, Text and Practice facets to the institution of business education. Unlike the Carnegie Foundation, which only provided Text in terms of providing only guidelines for how the institution of business education should *ideally* be doing, the Ford Foundation was involved in domesticating the institution of business education more directly through not only providing the Text in terms of minimum standards but also through the Practice of targeted funding and establishing the Space they called centres of excellence. The Ford Foundation was involved, not only through establishing the *reward* and *punishment* structure through target funds in disciplining the institution of business education, but also through the establishment of the centres of excellence when they moved the Space of business schools into the public domain. By publically acknowledging the *best practices* of centre of

excellence they created the opportunity for normalization of the new subject position. In other words, through the Practice of appreciating the *quality* of education in these centres the Ford Foundation achieved normalization of the proposed subject position it promulgated through its funding and involvement.

In a number of surveys done in the 1950s both the Carnegie and Ford Foundations *identified* that one of the central *deficiencies* in the Space of business schools was the lack of professionalism in its Practice of teaching (Gordon & Howell, 1959; Khurana, 2007). The Practice of teaching in the Space of business education, as described in the earlier section, was condemned for its reliance on vocational tricks. One of the main reasons for condemning the Practice of teaching was the "low intellectual standard and *apparent* lack of direction" (Khurana, 2007, pp. 247, emphasis added) on the part of business schools. As described earlier, the Ford Foundation funded study conducted by Gordon and Howell (1959) condemned the current Text and Practice of teaching in the Space of business schools and urged embracing an analytical approach. Gordon and Howell (1959) argued that:

> *"Business schools should emphasize breadth and seek to develop future economic statesmen, but these 'statesmen' can find a useful place for themselves in business and non-business positions at 'all' administrative levels. There is a need for breadth of outlook and qualities of leadership, in addition to technical competence, in the lower as well as in the highest levels of business and non-business organizations. We need 'little economic statesmen' as well as those who will sit in the top councils of business and government"* (pp. 60-61emphasis in original).

They identified through *empirical* evidence four basic elements that constituted business competence and argued how those competencies could be instilled in graduates through *formal* education (Gordon & Howell, 1959). Through the *detailed* study of the programs offered in business schools (both AACSB members and non-members) they argued for including *rigorous* and *advanced* economics in the courses requirements. They also proposed removing some of the more descriptive courses, specifically "courses in

conventional intermediate economic theory, money and banking, and public finance" (Gordon & Howell, 1959, p. 203), by arguing that these *failed* to meet the student needs. They provided a list of *suggested* courses for both graduate and undergraduate programs that business schools should be teaching.

In short, through their study, Gordon and Howell (1959), provided the Text through which within the Space of business schools the Practice of teaching could be exercised by the subject position. This Text was *actively* enforced through the Practice of targeted funding by the Ford and other foundations as well the government. Any schools that failed to achieve the *suggested* curriculum were not eligible for their funding (Khurana, 2007). Foucault (1977) argues that punishments such as depriving the aspirants of funding "has the function of reducing the gaps" (Foucault, 1977, p. 179) between the Text and Practice within a Space. The Ford Foundation, as argued earlier, was more involved in disciplining the condemned body of business education through establishing the centres of excellence.

To summarize the discussion so far, the foundations were producing Text by publishing reports and guidelines that identified the ideals the schools ought to achieve and, through access to funding interpreted here as the Practice facet of discourse, they were involved in the Practice of (re)forming the Space of business schools. These disciplining activities led to changes in many of the management fields' promulgated subject positions. This subject position, as argued earlier, was in line with the Text proposed by Gordon and Howell (1959) which emphasized the need for analytically and mathematically *rich* curricula.

One of the *proposed* ways through which the *targeted* subject position could be achieved was that business schools needed to hire faculty with doctorates at much higher proportions (Khurana, 2007). As explained earlier in the chapter the particular area of interest (in terms of Space in my methodology) was the establishment of "centres of excellence" by

the Ford Foundation. A bulk of its funding went to these centres and they were regularly portrayed as model institutions for all schools (Khurana, 2007).

The quality and quantity of the faculty remained one of the main concerns throughout these reports, AACSB assessments and in schools' own *evaluations*. The number of students (about 275,000 in 1949-1950 (AACSB, 1955)) was forecast to double by 1970 (AACSB, 1955; Gordon & Howell, 1959). To deal with this number of students, the schools were particularly concerned about the *strength* of their faculty. The then Text through which the Space of business schools were fulfilling the requirement of faculty was the part-time hiring of business executives. This practice was criticized in almost all the reports published by AACSB and other *evaluative* reports.

Thomas Norton (AACSB, 1955) summarized the importance of maintaining faculty standards and increasing its overall number to cater for the needs of new enrolments in the following quote:

> *"In common with educators in other branches of higher education the members of The American Association of Collegiate Schools of Business are deeply concerned with the many problems to be faced during the next decade and a half of anticipated expanding enrolments. Unless something is done now, the quality of instruction will deteriorate with unfortunate and tragic consequences for American business. The quality of training for our youth interested in an education for a successful and socially useful career in business must be maintained and even improved. In the life and death struggle with Communism, American democracy cannot be weakened from within"* (AACSB, 1955, p. 3).

As evident from the quote above, there was a widespread recognition inside the AACSB as well as the universities about the expected rise in the enrolments. This increase in students required immediate attention in terms of faculty requirements.

The AACSB (1955) reported the following statistics about faculty demand and supply to cater for the expected increase in the number of enrolments.

Table 5.3: Projection of faculty requirements in US collegiate schools and departments of business 1954-1970						
	Relative change in students and faculty – 1953=100	Total faculty	New faculty needed			New holders of doctoral degrees needed annually
			For expansion	For replacements	Total	
1953	100	5200	-	-	-	-
1954	103	5356	156	208	422	216
1955	107	5585	229	214	433	253
1956	111	5772	187	223	410	240
1957	114	5944	172	231	403	239
1958	119	6183	239	238	477	275
1959	125	6495	312	247	559	313
1960	134	6963	468	260	728	393
1961	145	7545	582	279	861	457
1962	153	7946	401	302	703	391
1963	158	8206	260	318	578	340
1964	166	8606	400	328	728	410
1965	178	9246	640	344	984	521
1966	189	9823	577	370	947	519
1967	202	10494	671	393	1064	577
1968	207	10754	260	418	678	410
1969	207	10744	-10	430	420	296
1970	212	11014	270	430	700	423
Source: Adopted from AACSB (1955, p. 23)						

As evident from the table above, it was expected at the time that there would be a consistent and increasing need for the faculty to *maintain* educational *standards*. When this demand for the faculty was compared with the supply of doctorates by business schools, the situation became even more compelling.

Table 5.4: Calculated business faculty deficit, 1954-70				
Assuming growth in doctoral programs proportionate to changes in total enrolments but with a 7-year lag				
	1954-60	1961-65	1966-70	Cumulative 1954-70
New degree holders required	1930	2120	2220	6270
Calculated supply available to business schools and department	1270	990	1280	3540
Deficit	**660**	**1130**	**940**	**2730**
Source: (adopted from AACSB, 1955, p. 28)				

Through an analysis of the tables above about the demand and supply of the doctorate degree-holding faculty one can see a big deficit in supply. The deficit in supply was projected to be 660 in 1954 that was going to increase to 2,730 in the year 1970. It was *anticipated* that such a shortage would lead to *further* decreases in what is already considered an inadequate Practice of teaching. To cover this gap, the doctoral programs were expanded throughout the business schools (Gordon & Howell, 1959).

However, attracting high calibre students towards doctoral programs was one of the concerns in the Gordon and Howell (1959) report. This perceived lack in supply of faculty was also one of the openings that was extensively exploited by the Ford Foundation to push its agenda of change in the business curriculum. According to Gordon and Howell (1959), one way of increasing the student supply for doctoral degree was to *strengthen* the graduate and undergraduate courses according to the structure *proposed* by them. The costs and faculty time associated with doctoral programs also provided a further opening for the government (and foundations) to push its agenda for change in the institution of business education. In order to be eligible for much sought-after funds, the schools were required to meet the *suggested* standards in the report. The Ford Foundation pushed its reform agenda with "financial aid and research support to students in business doctoral programs, support that exceeded the type of aid available in disciplinary departments" (Khurana, 2007, p. 279). The deficiency of faculty also encouraged in-breeding of faculty, and universities with doctoral programs kept their doctoral students upon completion of studies.

To summarize, so far in this chapter I discussed two stages of the change in subject position, first represented by the subheading de-institutionalization of finance, where I discussed how the three facets of discourse *delegitimized* the subject position promulgated.

The second stage of change in the subject position is the opening provided through the three facets of discourse for alternative subject positions to be established.

It is at this stage that marginalization and displacements are most visible and violent. In other words, consider the AACSB, government and business schools as representing the Space, the act of regulations as Practice, and the proposed standards as the Text facet of discourse. Then, in this section, I noted how the inability of AACSB dominated by heads of schools to regulate the business schools provided the opening for the government and foundations to *promote* their own *standards* for the institution of business education. These new standards being promoted were incorporating a quantitative and *scientific* knowledge into the curriculum of business education.

These concentrated *efforts* of incorporating statistically reliable and disciplinary based texts in the business schools would result in creating a space which will eventually provide the dominant worldview for finance academics. The following analysis is the third stage of the subject position change. In the pages below, I will show how the newly established discourse represented by its three facets – Space, Text and Practice – gave rise to what we now call modern finance.

5.4.3 The Institutionalization of New Finance

The anticipated increase in the demand of faculty was met mostly by hiring economists in the business schools. The Text of meeting the faculty requirement through part-time employees consisting of business executives, as argued earlier, within the Space of business schools was now replaced with the Text of hiring economists and other disciplinary trained faculty (Khurana, 2007). In other words, the Practice of hiring within the Space of business schools was now guided by Text that outlined an emphasis on economists and disciplinary trained (such as Doctor of Business Administration) full-time faculty positions.

This, coupled with inclusions of the Space of economics departments' faculty as part of the business school's own faculty required by AACSB (Gordon & Howell, 1959), substantially increased the influence of the subject position promulgated by the institution of economics on all of the different subject positions promulgated through the business school disciplines.

In their survey, Gordon and Howell (1959) reported the following findings regarding a doctoral degree-holding pattern in business schools:

Table 5.5: Distribution of doctorates held by full-time regular business faculty		
Field of doctorate	AACSB member schools	AACSB non-member schools
Business administration	35	35
Economics	56	48
Psychology	1	3
Education	2	4
Other	6	10
Source: Adopted from Gordon and Howell (1959, p. 342)		

The above table shows an *overwhelming* concentration of economists in the Space of business schools. This concentration resulted in widespread diffusion of the subject position promulgated by economics ideology in most, if not all, of the courses offered in business schools (Khurana, 2007; see also the discussion by MacKenzie, 2006; Skalen et al., 2008; Townley, 1993; Whitley, 1986b). In addition to the concentration of economists, the in-breeding of faculty through employing their own PhD students resulted in creating a *chain* of research that was dominated by the new subject position promulgated by the institution of new finance. Many of the originators of modern finance theories had supervisor/student relations, for example, Michael Jensen and Eugene Fama; Myron Scholes and Merton Miller; William Sharpe and Harry Markowitz. This, according to MacKenzie (2006), provided the opportunity for the new subject position to institutionalize. This new subject position drew on quantitative and empirical techniques and did away with the subject matter of *old* finance as irrelevant.

The most important and direct influence in mobilizing the identity of the *new* subject position of academic finance came from the Graduate School of Industrial Administration (GSIA, onwards) at the Carnegie Institute of Technology. GSIA, which was the "poster-child" for the Ford Foundation and one of their centres of excellence (Augier & March, 2011; Khurana, 2007), would in the coming years provide the new Text of business education dominated by statistical evaluations (Khurana, 2007; MacKenzie, 2006) that had Friedmanite ideology embedded into it (Frankfurter & McGoun, 1996). Established in 1949, the Space, Text and Practice of GSIA had the explicit objective from its inception to get rid of the vocationalism from the Practice of teaching in the Space of business schools (Khurana, 2007; MacKenzie, 2006). GSIA was built around what was later called "The Chicago Model", introduced by Robert M. Hutchins who was president of University of Chicago from 1929 until 1951 (Augier & March, 2011).

The Chicago Model emphasised inter-disciplinary research and teaching and had strong reservations about vocationalism in universities. The model was not very successful at the University of Chicago, perhaps because of dealing with the politics of *established* disciplines, and Hutchins himself was not interested in the institution of business education (Augier & March, 2011). Institutional theorists argue that it is generally difficult to challenge the boundaries and legitimacy of an established discipline unless the *order* actualized through discourse changes, as argued earlier in Chapter Four. Gordon and Howell (1959) also strongly proposed a change in the subject position of these institutions by calling the established ways a *pride* that needed to be done away with. While the University of Chicago after Hutchins started moving away from the inter-disciplinary emphasis that Hutchins argued for (Augier & March, 2011), GSIA on the other hand was established primarily to get rid of the Text of vocationalism in favour of the Text that outlined inter-disciplinary Practice of research under the leadership of Lee Bach. Bach, an economist, was the founder and the

first selected dean of the institute. He had *novel* ideas about increasing the quality of business education. According to Fourcade and Khurana (2008), Bach:

> *"… wanted a block of faculty members to provide the disciplinary foundations for the applied fields to business. For this group, we preferred people from disciplines i.e. economics, political science, the behavioural sciences, operational research and the quantitative methods i.e. mathematics, computer, statistics, accounting"* (Fourcade & Khurana, 2008, p. 20).

In a retrospective interview Bach himself identified his purpose behind the establishment of school in this quote:

> *"What we wanted was a faculty, including a substantial group of discipline-based but applied teachers and researchers, who were interested in developing the disciplines as a foundation for the applied courses in business school curriculum. We were also especially interested in people who were willing to be interdisciplinary where necessary – to solve real, complex problems rather than making each problem fit an existing discipline – to work at the boundaries of the discipline. And we wanted people who were interested in the real world. Theory has a powerful role to play in education for management, but the real work of MBA program is using that theory to help solve business problems. We didn't want people who just wanted to sit and spin off theory"* (Bach's interview, quoted in Khurana, 2007, p. 253).

The Space of GSIA was the model institute, the "poster-child", according to Augier and March (2011), the centre of excellence that had *ambitions* to overcome *the* deficiencies in the institution of business education.

GSIA was the ideal answer to *emerging* and *established* order of the institution of business education. It gained specific importance because it was neither an AACSB member and nor did it have the institutionalized Practice of teaching (referred to as *pride* by Gordon and Howell, 1959). Augier and March (2011) describe how GSIA was not recognized as an established business school such as Harvard, Wharton or Chicago, but its dean was advisor to the Ford Foundation and was well known to it. GSIA received *grants* from the foundation even before it had formally launched the Economic Development and Administration programme.

Bach, with his *objectives* in mind, recruited two prominent researchers, William Cooper, an economist from the University of Chicago and Herbert Simon, a political scientist also from this university. The three shared *concerns* over the quality of the institution of business education (Khurana, 2007; MacKenzie, 2006). According to James Howell, the co-author of 1959 Ford Foundation report:

> "*Under the guidance of Bach and Simon [Carnegie] was going to mobilize the methodologies, attitudes and recent advances of social sciences to investigate the phenomenon of organizational administration. The ultimate goal was the construction of a science of administration using economics and the behavioural and quantitative sciences as the starting points. If even partially successful, the Carnegie group would provide the intellectual basis for the hoped-for revolution in business education. Here was the advanced projects laboratory, the R&D group that EDA had to find or create; fortunately it already existed"* (Howell, 1966 as quoted by Augier & March, 2011, p. 124).

GSIA had *everything* right from the onset and was very much in accordance with the requirements of discourses defining the *order* surrounding the institution of business education. According to Augier and March (2011), at GSIA:

> *"The economics that was taught was not 'business economics' but the advanced micro- and macro-theory courses of an economics department. Accounting was combined with statistics into a course on quantitative control. Management and organizational behaviour were transformed into an interdisciplinary course on 'organizational theory'. Marketing emphasized analytical models for assessing demand and developing marketing strategy. Production management morphed into operations research, much of it using linear and dynamic programming methods. Almost as soon as computers were available, a computer management game was developed and used"* (Augier & March, 2011, pp. 128-129).

It experimented with the many developed fields of the time and produced some of the most *dominant* present day theories in economics, management and finance.

It is through this interdisciplinary approach *adopted* at GSIA that *modern* methodologies of the subject position of the institution of academic finance were developed (MacKenzie, 2006). Many of the early day theories were developed in the Space of GSIA,

guided by the Text of multi-disciplinary Practice of research as outlined by the Chicago Model through adopting the subject position of the institution of economics. The most famous among these were the Dividend Irrelevance and Capital Structure Irrelevance theory by Miller and Modigliani (1961) and Modigliani and Miller (1958), respectively.

To summarize the discussion in this section, the Practice of funding by foundations, importantly the Ford Foundation, resulted in creating the Space of business schools that *followed* and were *attempting* to be in accordance with the Text set by Foundations. This, along with the *dissatisfactions* expressed by the academics over the *quality* of education, provided the opportunity for alternative theories to gain legitimacy. These theories, as it happened to be, were analytical and statistical in nature. As described earlier in Chapter One, the role of scienticism in the period was *profound* (Smiddy & Naum, 1954; Whitley, 1986b), thus in the context of vocabulary adopted for this thesis, one can argue that the *order* for the institution of business education had changed from vocationalism to scienticism.

Subsequently, we can see the proliferation of the theories that are found in any standard version of history. One of such theory, the Efficient Market Hypothesis, which was developed at the University of Chicago, will be analysed in detail in the next chapter.

5.5 Conclusion

I started this chapter with a discussion of how in the Space of post-war America the concerns over unemployment resulting from the transition from the Practice of war resulted in increased demand for education, specifically higher education, through the introduction of the GI Bill. The Text of the GI Bill resulted in the Practice of increased enrolments in the Space of business schools. The Space of post-war America had a fascination with the Text of scientific methods because of its success in controlling and coordinating the Practice of war.

This emphasis on the standard or Text of scientific methods as a criterion for judging the validity of knowledge brought into question the validity of the Practice of vocational training at the Space of business schools. This resulted in de-legitimization of the subject position of the then business education.

The de-institutionalization of the old subject position resulted in creating opportunities for the alternative Practice of teaching in the Space of business schools. This opening, resulting from the de-institutionalization of the acceptable Practice based on the Space and Text of business education, created the opportunity for institutions beyond the normal control mechanism of business schools, such as AACSB, to exercise influence over the Text and Practice of Space of business schools. These institutions, which included the government and philanthropic foundations, emphasized the Text of the economic worldview in the Practice of teaching within the Space of business schools. The government and the foundations, through the Practice of reward and punishment in terms of access to funds, helped create the new subject position of business education that promulgated quantitative and *scientific* knowledge creation.

As argued earlier in Chapter Four, the institutions can only manifest into action through their subject position. The institution, as depicted in the context of the story of the finance lecturer in Chapter One, can only exist and be seen when the Space, Text and Practice facets of the discourse it promulgates constitute the subject position that is acted upon. Different institutions provide different sets of acceptable standards for the same subjects. Consider the example of the teacher-student relationship – the power dynamics of this relationship changes significantly when the two meet in a classroom as opposed to meeting in a social gathering. In the institution of teaching/learning, acting through its Space of classroom will have the acceptable Practice of listening carefully to the teacher where speaking by the student may be considered interruptions. However in the institution of social

gathering, the acceptable standard of listening closely to the teacher will change and may even be considered rude and as such interruptions in a social setting may be interpreted as an inclusive discussion.

The subject position being promulgated by the same institution can change through a change in *order*. As discussed in the chapter, while it may have been feasible at one stage to research and publish descriptive work in finance, the possibility and feasibility of such research changed dramatically under new Space, Text and Practice relations. In the new *order* that was established in the 1960s and 1970s, the purpose of education was to train students for a *career* and not a *job* so the value of vocational training declined. The emphasis of scienticism and statistical logic challenged and obstructed the much-needed publications for promotion, and as such academics were inclined toward and forced to confirm to modern approaches. While the *established* faculty could have insisted on the old methods of understanding, e.g. David Durand as discussed in Chapter One, the newcomers to the field had to follow the approaches for the associated rewards with the new subject position.

The institutional analysis presented in this chapter stands in contrast to the standard history that Weston (1994) produced about the history of finance ideas. He ignores the political and contested nature of the change and locates the history in five historical processes. He argues that the change in institution of academic finance is because of:

> *"One, the new developments of each historical period and the creators of these developments were responding to the pressing economic, financial and socio-political problems of the period.*
>
> *Two, financial thought has responded to the maturation of financial markets, internationalization, and increased competition.*
>
> *Three, the development and/or uses of new tools, new mathematical models, and new methodologies have facilitated the creation of theories to explain financial behaviour.*
>
> *Four, practice has reflecting the new learning with varying time lags but has also stimulated the development of theory to understand, explain and predict financial behaviour.*

> *Five, new ideas have built on the ideas provided by previous knowledge"*
> (Weston, 1994, p. 7).

Weston's (1994) analysis of the origin of ideas presented in the quote above stays consistent with the idea of normal flow of science as presented by Kuhn (1996) through *paradigms* and *puzzle* solving. The history, however, presented in this chapter emphasized the political and contested nature behind the *constitution* of the subject position of modern finance by interpreting the events in accordance with the theorization of relations presented by power/knowledge and analysing the differential relations between the interacting institutions through the three facets of discourse.

This chapter, as argued earlier, in the broader context of the question of How as raised in Chapter One about the subject matter of finance, presented an answer to the first facet of the discourse i.e. the Space of academic finance. The next chapter offers the second facet of discourse towards the question of How by studying the Text of academic finance. The three facets of discourse, i.e. Space, Text and Practice combined as argued in Chapter Four and demonstrated in this chapter, can provide an answer to the question.

Chapter 6: The Triumph of New Finance: An Institutional History of Efficient Market Hypothesis

> *"To observe, then, is to be content with seeing – with seeing a few things systematically. With seeing what, in the rather confused wealth of representation, can be analysed, recognized by all, and thus given a name that everyone will be able to understand"*
>
> (Foucault, 2002, p. 146)

6.1 Introduction

In Chapter Four, I argued that to study institutions and changes in institutions we need to look at the subject position they promulgates and that an account of the subject position can be obtained by studying the three facets of discourse i.e. Space, Text and Practice. Based on this theorization, this thesis, as described earlier in Chapter Four, is an attempt to offer an answer to the question of *How* related to academic finance as raised in Chapter One. The previous chapter discussed one of the three facets that can help us in answering the question i.e. the Space of business schools. It outlined the process of de-legitimization of the *old* subject position and the institutionalization of the *new* subject position by studying the three facets of discourse related to the institution of business education.

This chapter builds on Chapter Five and discusses how the Space, Text and Practice facets of discourse helped the expansion of scientifically rigorous theories of finance in the Space of business schools and offers an answer to the second question of the three about the *How* of academic finance raised in Chapter Four i.e. "where does the discourse of finance direct our attention to and avert our attention from?" To do this, I will analyse one of the *key* theories in academic finance, the Efficient Market Hypothesis (EMH, from here onwards).

While a detailed discussion and mathematical derivation of the theory itself is beyond the scope of this thesis, some explanation is necessary. Put very simplistically, EMH states that all relevant information is absorbed in the price of securities as soon as they are available and as such it is *impossible* to outperform the market except through *luck*. It is often dubbed as the financial economics equivalent of the *invisible hand* of Adam Smith's economic theory (Frankfurter, 2007).

I chose to study EMH as it is arguably one of the most influential theories in academic finance. It can rightfully be called *the* basis of the theoretical and physical infrastructure of modern financial markets that provides explanations as to how the prices of securities change, and as such creates the opportunities for the *effective* governance of the market. I selected this theory because of its widespread acceptability across all domains, including academics, professionals working on the market floor, security analysts, courts of law and regulatory authorities, as well as the contested nature of theory. Historically EMH has remained one of the most debated *concepts* among academics belonging to mainstream, behavioural and sociologists of finance (see for example Ardalan, 2004, 2008; De Goede, 2004, 2005b; Fama, 1998; Frankfurter, 2007; Frankfurter & McGoun, 1999; Guidi & Gupta, 2012; MacKenzie, 2001, 2003, 2006, 2011; Malkiel, 2005; Shiller, 2003; Watson, 2007).[41] The debate between the participants of the discussions is both on-going and has recently intensified to the extent that some researchers are trying to locate the rise of a new paradigm (see for example Gippel, 2012).

My concerns, however, remain different from the discussions referred to above. It is neither my intention to approve or disprove of the utility and/or applicability of the theory, and nor do I intend to provide an exhaustive history of EMH. Instead, I aim to understand the

[41] To list only a few of the many reviews this theory has

conditions that facilitated its *origin* and institutionalization by producing an institutional history of the theory through the three facets of discourse. Consistent with the method of analysis adopted in this thesis, I will briefly present the standard history of EMH to develop a pragmatic stance on the archive and locate the Space, Text and Practice facets of discourse that will in turn be utilized for developing the institutional history. Based on the discussions of the three facets of discourse carried in this thesis, one can characterise the previous chapter as being concerned with Space and the current chapter being concerned with the Text and the next chapter being about the Practice facet of the discourse of academic finance. As argued throughout the thesis, through analysing the three facets of discourse one can come up with an account of subject position that is promulgated by academic finance to offer an answer to the question *How* as outlined in Chapter One.

6.2 Standard History of EMH

Prices in financial market change, and until very recently these changes were attributed to speculative and in extreme cases gambling practices (De Goede, 2001, 2005b; MacKenzie, 2006). [42,] Studying changes in prices has remained a long-term focus for parties interested in financial markets. These studies make it possible for some authors to trace the origin of the EMH back to the 16th century (see for example Sewell, 2011).

One of the earlier scholars who studied stock markets was Louis Bachelier, a French mathematician. Bachelier in the year 1900 studied price movements as part of his PhD studies in mathematics for his thesis titled "The theory of speculation" (MacKenzie, 2006).

[42] De Goede (2001) argues that normalization of financial practices started with the enactment of 1934 Security and Exchange Act. MacKenzie (2006) locates that the distinction between finance and gambling was epitomized through the re-opening of the Chicago Board of Exchange in 1974. The distinction is however political and not natural as demonstrated through the discussion by De Goede (2001) in Chapter 3, pp. 103-151.

Bachelier theorized securities prices were suspended articles in air and provided his explanation in terms of Brownian motion.[43] He explains that it might be possible to overcome the negative movement in security price by utilizing (the then obscure) instrument of options (MacKenzie, 2006; Preda, 2004; Sewell, 2011).

However, in his time studying stock markets was not considered a serious or important effort by academics, including mathematicians, statisticians, finance specialists or economists, because of its general characterization as a speculative practice (MacKenzie, 2006). Despite what later occupied most of modern finance, he himself only achieved a professorship at a very late stage in his career (MacKenzie, 2006), depicting the discomfort that the academic community had with the *gambling grounds* known as markets. His work resurfaced in the period of rapid expansion of stock markets during the 1950s. Academic interest in the financial markets, especially quantitative analysis during this period, was made possible through an intense political and social discourse as outlined in Chapter Five.

To recap, the change from descriptive to analytical finance was facilitated by economists dominating the Space of business school and through the Practice of targeted funding from philanthropic foundations and government that specifically sought *scienticism* and *professionalism*. In the period, the Space of business school was trying to gain *legitimacy* as "Space for higher education" where students *ought* to be trained for *careers* rather than *jobs*.

[43] Reported by R. Brown, a botanist, who observed a very irregular motion of a pollen particle immersed in a fluid (Paul & Baschnagel, 2000). Paul and Baschnagel (2000) describe Brownian motion as, "in the Brownian motion problem and all its variants – whether in physics, chemistry and biology or in finance, sociology and politics – one deals with a phenomenon (motion in pollen particle, daily change in a stock market index) that is the outcome of many unpredictable and sometimes unobservable events (collision with the particle of the surrounding liquid, buy/sell decision of a single investor) which individually contribute a negligible amount to the observed phenomenon, but collectively lead to an observable effect" (Paul & Baschnagel, 2000, p. 2).

At this time, studying financial markets was also being actively encouraged in the University of Chicago through efforts of the Cowles Commission under Hutchins' multi-disciplinary model. In addition to this model, also known as the Chicago Model, the practices of the stock market during the period also *normalized* (De Goede, 2001). The normalization of the stock market along with the recovery of the financial market from the 1929 crash helped in removing the generally unfavourable sentiments toward markets of the public. This in turn also encouraged academics to study the functions of the stock market.

Before EMH, the emerging new finance academics, following Luis Bachelier, were of the opinion that prices in stock markets moved randomly.[44] They stood in contrast to finance practitioners who argued for the existence of a historical pattern in prices.[45] Academics were of the opinion that the movements of prices were not forecastable due to their random nature, while practitioners of the period were of the belief that history repeats itself so with careful analysis one could predict future prices (Fama, 1965).[46] Academics of the period were generally inclined to theorize price movement as a random walk, which attempts to explain Brownian motion. The academic acceptance of the truth of the random walk could be because of its *scientific* nature as opposed to *vocational* and *unprofessional* belief structures behind Chartism.[47] In other words, since the academics were not convinced about predicting prices from the perspective of past changes, and in the *absence* of a *clear* understanding of why prices moved, the Brownian motion metaphor seemed a *natural* fit. As explained earlier,

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[44] Random movement in market prices (specifically security markets) were commonly perceived to be in line with Brownian motion (Paul & Baschnagel, 2000) based around the fact that stock markets practices are speculative (MacKenzie, 2006).

[45] The basic assumption behind Chartism – Chartists believe that prices follow a set pattern and can be predicted.

[46] The interested reader may wish to read Granger (1992) who described the different theories about stock price movements in easy-to-understand language.

[47] Practitioners believed that a change in prices can be forecasted by analysing the past trends, for the purpose they would chart the prices. Doing so was called Chartism.

Bachelier had already studied the random nature of the market prices in the year 1900 as part of his PhD studies. According to the BBC documentary, *Trillion Dollar Bet,* Paul Samuelson, one of the influential economists of the time, found this work in 1950s "rotting in the library of the University of Paris" (PBS, 2000). According to Samuelson (in PBS, 2000):

> *"In the early 1950s I was able to locate by chance this unknown book, rotting in the library of the University of Paris, and when I opened it up it was as if a whole new world was laid out before me. In fact as I was reading it, I arranged to get a translation in English, because I really wanted every precious pearl to be understood."*

Random walk theory was (and still is) a popular discussion of the time, and seemed a *natural* fit to the problem of stock prices to statistically trained academics.[48] Since business schools of the time driven by vocationalism were looking for academic recognition, Chartism and other price forecasting theories (Granger, 1992) were *perceived* to be *unscientific* and *inappropriate* for the purpose of analysing financial markets.

The first in the series of papers that eventually led to EMH was by Eugene Fama (now Nobel laureate in Economics for the theory), at the time pursuing his PhD in the University of Chicago. Fama analysed stock price movements in his doctoral studies that he later published in a paper titled "The behaviour of stock market prices" (MacKenzie, 2006). Speaking about change in direction towards understanding the distribution of security prices rather than time-series behaviour of stock prices, Fama locates the influence of faculty from the University of Chicago and GSIA such as Harry Roberts, Merton Miller, Franco Modigliani and specifically Benoit Mandelbrot.[49] He associated his PhD with Mandelbrot by saying, "I'm Mandelbrot's

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[48] In its essence it is a theory that tries to explain Brownian motion. Google Scholar returns over 1,200 entries when we search the term 'random walk' with quotes published until 1960 (http://scholar.google.co.nz/scholar?q=%22random+walk%22&btnG=&hl=en&as_sdt=0%2C5&as_yhi=1960).

[49] Mandelbrot was convinced of *order* behind the seemingly *rough* nature of things; he coined the term "fractal geometry" and later gave his "theory of roughness" in 1975. Fama describes that "Benoit had spent his life showing that almost all stochastic variables are fat-tailed. He characterizes them with this class of stable

student in the sense that two-thirds of my thesis was a take-off on his work" (The AFA, 2008a, p. 9). In his thesis, Fama discussed and empirically tested random walk theory (Fama, 1965). The first direct attempt to empirically test the role of information on market prices was by Fama, Fisher, Jensen and Roll in 1969. For this purpose they studied stock-splits and concluded the paper with:

> *"… the results of the study lend considerable support to the conclusion that the stock market is 'efficient' in the sense that stock prices adjust very rapidly to new information*" (Fama, Fisher, Jensen, & Roll, 1969, pp. 20, emphasis in original).

Frankfurter and McGoun (1996) argue that the idea of testing market prices through information may have come from the "good and bad events" study that Ashley (1962) published with regard to stock prices.[50] Ashley (1962) provided four conclusions regarding responses in stock prices to *good* and *bad* events. He argued that:

1. Changes in earning and/or dividends significantly affect peoples' expectations" (Ashley, 1962, p. 84);

2. Capital value responds significantly to changes in earnings and dividends" (Ashley, 1962, p. 84) ;

3. Capital value responds to changes in earnings and dividends relatively quickly, but certainly not completely, within the first three or four days" (Ashley, 1962, p. 85); and

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distributions which we are all very familiar with. For example the Nile river overflows way more than you would expect if rain follows a normal distribution" (The AFA, 2008a).

[50] Ashley (1962) empirically tested the results of four good and four bad news on stock prices. The null hypothesis tested was "the mean percentage change of stock prices of a sample of companies representing "good" news is not different from the mean of a sample of companies representing "bad" news. The alternative hypothesis (implied by capital theory) is that these means are different" (Ashley, 1962, p. 82). And the good and bad news were defined as "G-I-reported earnings up by 200 per cent or more; G-II-reported earnings up by 100 per cent to 200 per cent; G-III-dividends increased or resumed; G-IV-reported earnings up by 100 per cent or more or dividends increased or resumed (that is, G-I, G-II, and G-11 combined). The four kinds of bad news are defined as follows: B-I-reported earnings down by 50 per cent or more; B-Il reported earnings down by from 25 per cent to 50 per cent; B-Ill dividends reduced or omitted; B-IV-reported earnings down by 25 per cent or more or dividends reduced or omitted (that is, B-I, B-Il, and B-Ill combined)" (Ashley, 1962, p. 83).

4. “Capital value respond more quickly to bad news than good news” (Ashley, 1962, p. 85).

Following the publication of the Fama et al. (1969) paper, many studies tested the price movements under the assumptions. It is generally argued by mainstream historians that the conference presentation by Fama in 1970 paved the way for the ultimate institutionalization of EMH as a taken-for-granted understanding of the price changes. This paper later became the most important piece of work that *describes* and *evaluates* EMH and has been cited over 10,700 times according to Google Scholar. In this paper, Fama also provided three qualifiers to EMH, namely Weak[51], Semi-Strong[52] and Strong[53] forms (Fama, 1970).

Unlike a random walk, EMH provided a way to rationalize the previously *un-analysable* movements in stock prices. It allowed analysts, managers and regulators to imagine (and as such control) the conditions for price changes, and it gained acceptance from legal and regulative circles as *true* representation of the market mechanism. The arguments put forward through EMH *routinely* started to appear in law and finance textbooks and casebooks (Gilson & Kaarman, 1984). Many of our modern corporate governance laws and guidelines are developed under the understanding of the EMH, such as the insider trading rules, disclosure and regulations that deal with arbitrages.

The claims put forward through EMH came directly to clash with the claims of practitioners of the time, but the *sense* of rationality and *acceptance* of EMH by the regularity authorities paved its way over the *resistance* of fund managers. One of the major *innovations*

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[51] The present price of the stock reflects the intrinsic value of the stock.

[52] The present price reflects the intrinsic value of the stock and all publically available information.

[53] The present price reflects the intrinsic value of the stock, all publically available information, as well as private information accessible to corporate insiders.

that *followed* the introduction of EMH was the creation of index funds. In addition to regulatory acceptance, the market crash of 1970 caused by hyperinflation and the oil shock helped towards the acceptance of academic ideas about stock markets as opposed to fund managers' arguments. During this period a significant portion of practitioners came to *embrace* the conclusions and arguments put forward by financial economics academics. Besides the above, Frankfurter and McGoun (1996) also talk about the role of "Murderers Row" in conferences and seminars led by Fama and other *influential* academics of the time (see also Jahnke, 1994). Foucault (1982, 1977) argues that mechanism of power through *ranking* creates unequal opportunities for individuals that create differential relations among the individuals. The *ranking* of individuals as experts and naïve, allows experts to examine and judge the work of others as reflected through the discussion of CRSP seminars by Frankfurter and McGoun (1996) where the experts such as Eugene Fama would question the validity of statistical proof presented against the arguments of CAPM.

To sum up this standard history, derived mainly from a reading of MacKenzie (2006) and Frankfurter and McGoun (1996), EMH originated within North American business schools specifically the University of Chicago and a deriving influence from GSIA (The AFA, 2008a). Paul Samuelsson, Richard Roll, Michael Jensen and Eugene Fama all belonged to the business schools located in the US. The market practices and prices that were analysed in the papers were gathered mainly from American stock exchanges. It was also borrowed from and coupled with the legitimacy of asset pricing and other theories such as CAPM and Portfolio Selection. It can be seen that its acceptance in the legal and regulatory circles paved its way for institutionalization. In its essence, the standard history associates the history of EMH to Eugene Fama (Frankfurter & McGoun, 1996; The AFA, 2008a) with some locating the pre-dated research on security prices as research on EMH.

In the following section I will present the central Space, Text and Practice aspects related to the institutionalization of EMH. By analysing the data collected with the help of the three concepts presented below, I will then develop an institutional history of EMH.

6.3 Locating Space, Text and Practice

As described in Chapter Five, institutions consist of fragmented and contested parts (see also Townley, 1993) but have an appearance of linear evolution (Foucault, 2002) that makes it possible to study them from the *purposive* (Lawrence & Suddaby, 2006) or *constructed* (Thornton & Ocasio, 2008) actions of the seemingly *independent* individuals (Meyer & Jepperson, 2000). The *purposive* or *constructed* action strands in institutional theory, as argued in Chapter Four, see institutions as if they exist a-priori with set boundaries that somehow embed in them opportunities for the actions of the individuals to limit and expand these boundaries. In other words, within these strands institutions are presented to us as if they "are fixed, essentialist, pre-political and unique" (Peci et al., 2009, p. 87) and they are created, maintained and disrupted in the favour of the agents who work for their benefits (Lawrence & Suddaby, 2006). The exaggerated role of the individuals in the process of institutionalization is argued by Gutting (1989, pp. 229-230), while discussion on the history of ideas in an archaeological analysis comes from the discourses which place individuals at the centre of the history, individuals without whom the process could not be actualized nor the history completed. Such a conceptualization of the historical role of individuals limits the analytical capabilities. The history established through such an analysis will require us to locate and demonstrate these individuals as the "means of transmission." A history of institution, established under the assumption, will read as if "there is a *development* of an author from work to work, the *influence* of one author on another, and that generalized influence of all on all that is called the *spirit of an age*" (Gutting, 1989, pp. 230, emphasis in

original). A power/knowledge perspective challenges such a conception of an institution and its history and locates the *constitution* and *limitations* therein by emphasising the power relations in existence in the wider context of the society (Friedland & Alford, 1991) where the role of individual is not as *individual* but a subject of the institutions that exists across the Space, Text and Practice of an *order*.

Institutions, as argued earlier in Chapter Four, guide the subject towards an *appropriate* set of actions within their domain through three facets, Space, Text and Practice. In this thesis, I argue that by looking at these three facets of the discourse we can produce an account of the characteristics of the subject position being promulgated by an institution, and tracing the subject position through its history we can understand both the process of change within an institution as well as the creation of it. Institutions, as argued earlier, are created and changed through *constant* and *continuous* interactions between different subject positions, originating from *competing* and *collaborating* institutions. These subject positions *form* new understandings which provide the opportunity for the creation of an institution as well as for *deinstitutionalizing* old methods of doing within an institution to provide an opening for alternative methods. Institutions once created/changed provide an understanding of its subject by *disseminating* a certain set of actions. This *disseminated* set of actions, however, as explained earlier in Chapter Four, can only elicit, promote or attribute the qualities it seeks to incorporate in its subject and as such stays different from the *actual* action of the subject (Dean, 1999), which makes it possible for further change in institutionalized ways of doing things.

Thus as argued earlier, we can obtain a detailed analysis of the process of change by looking at the three facets of discourse i.e. Space, Text and Practice. Dividing the discourse into its facets allows us to contextualize the relations between competing and collaborating discourses through which we can identify the conditions of possibilities for alternative claims

to truth to institutionalize. In terms of the Text facet of the discourse of academic finance, studied here through an institutional analysis of EMH, we can identify the following key Space, Text and Practice aspects from a reading of the standard history developed earlier.

6.3.1 Space

Space, as described earlier, can be defined as the facet of discourse that is associated with location. It thereby consists of discourses related to political identity, religion, economic orientations, family structure, gender relations etc. For the purposes of this chapter, in terms of Space we can identify American business schools, specifically the University of Chicago and GSIA, as the *place* where EMH originated. In addition to the schools, the data used and empirical studies carried out to test and evaluate EMH were from stock exchanges and other financial markets located in America. I discussed the discourses related to business schools in the previous chapter in detail and provided an explanation as to the conditions of possibility for modern finance. Here my main emphasis will be on regulatory and legal as well as the practitioner aspects of financial markets.

6.3.2 Text

Text is the facet of discourse that outlines the norms and standards for interactions and can be both written and unwritten. As outlined earlier in Chapter Five, the Text for academic inquiry of the time was guided by scienticism. From the standard history we can locate that at the time of origin of EMH, the dominant academic understanding of the price movement was considered to be random and most of the *scientific* evidence was suggesting that prices move in accordance with Brownian motion. As argued earlier, for a Text to institutionalize it usually builds upon and couples with other texts of the time. With that in mind I will also discuss how other theories of the time helped, and were in turn assisted by

EMH leading to its institutionalization as the dominant theoretical base that guides our corporate and market governance and regulations.

6.3.3 Practice

Practice is the facet of discourse that defines the response for a subject position within the Space of an institution based on the Text. In terms of practice, we can see that EMH and its rhetoric presented a direct challenge to the investment practice of the time. While investment managers and brokers of the time were of the opinion that they could outsmart the market and make profits by utilizing their skills, EMH provided an opposite view and argued that investment managers cannot outsmart the market but maybe they are lucky in earning more than the market. Specifically I will be concentrating on how EMH led to a criteria that could be used to judge the investment manager performance and how the same criteria became the basis of the index funds.

The remaining of this chapter expands on the themes presented in this section and develops an institutional analysis.

6.4 Institutional history of EMH

Chapter Five outlined the *general* dissatisfaction about the institution of business education over its *reliance* on the Text of vocationalism that guided the Practice of teaching. Hutchins, the president of University of Chicago from 1929 till 1951, made the following comments about the Practice of teaching in the institution of business education:

> *"The tricks and trade [vocations] cannot be learned in a university, and … if they can they should not be. They cannot be learned in a university because they get out of date and new tricks take their place, because the teachers get out of date and cannot keep up with current tricks, and because tricks can be learned only in the actual situation in which they can be employed"* (Hutchins, 1968, p.47 as quoted in Augier & March, 2011, p. 62).

As the president of University of Chicago, an important Space that occupied a central position in the institutionalization of academic finance, Hutchins had concerns about the vocationalism within the institution of business education. For him, business education was not a *university style* education and he considered it to be both *unimportant* and a vocational dump. In other words, the *condemned body* of the institution of business education required *disciplining* to qualify as a body of *higher* education. This and other similar *concerns* with the Text of vocationalism caused widespread changes in the institution of business education as described earlier in Chapter Five.

For Hutchins, this *disciplining* required an emphasis on the Text of the multi-disciplinary approach towards the Practice of teaching and research. Thus he sought to reduce the role of *individual* disciplines in studying a phenomenon. The University of Chicago, under the presidency of Hutchins with his theorization of *disciplining* the *body* of higher education, was inclined towards a multi-disciplinary research that sought to reduce the role of *individual* disciplines in the university (Augier & March, 2011). Under this multi-disciplinary approach, later known as the Chicago Model, Hutchins actively sought to bring in the Cowles Commission for Research in Economics (now located at Yale under the name Cowles Foundation) in 1939. The Cowles Commission was formed in 1932 at Colorado Springs, Colorado by Alfred Cowles, an investment practitioner and analyst, after he become sceptical about market practices due to the market crash of 1929, in which he sustained heavy losses. Christ (1994) writes that "he [Alford Cowles] told me in 1952 that *after* the stock market crash of 1929, he *realized* that he did not understand the *workings* of the economy, and so in 1931 he *stopped* publishing his market advisory letter and began working on stock market *forecasting*" (pp. 30, emphasis added).

The stock market crash of 1929 had a significant *impact* on the practices of the market. De Goede (2001, pp. 201-223) documents the period. She argues that "the 1929 stock

market crash caused a resurgence of critique of the financial sphere" (p. 202) where the *settled* argument of speculation being described as "an intelligent, responsible and professional practice" (p. 202) came into question. The market of the period, which was *condemned* as the place for speculations and gambling (De Goede, 2001; MacKenzie, 2006), "has attained such magnitude and has become so closely interwoven with the economic welfare of the country, that it has been deemed an appropriate subject of government regulation" (The Stock Exchange Practice Report, 1934, p. 5, as quoted by De Goede, 2001, p. 207). Consequently, there were efforts for *regulating* the market practices that eventually led to the enactment of the Securities and Exchange Commission Act of 1934, resulting in *legal normalization* of markets and market practices (De Goede, 2001).

As argued earlier in Chapter Three, for Foucault power not only restricts and restrains relations but also produces new avenues of interactions and understandings. From a Foucauldian perspective, De Goede (2001) argues that following the crash, "the regulatory efforts of the 1930s produced a legitimate professional domain for speculators; they produced regimes of financial truth embodied by rules of disclosure and registration; and they enabled the silencing of the political contestation over speculation which had predominated in previous decades" (p. 206). By the end of the war, stock markets were recovering from the crash and *again* gaining importance. According to the National Bureau of Economic research (NBER), by the year 1946:

> *"A large fraction of the accumulated wealth of the American people is represented by negotiable debt or equity securities. More than ten million individuals directly own stocks of American business corporations; and millions more hold government or corporate bonds and notes. In addition, nearly everyone has an indirect interest in the securities market through securities in the portfolios of insurance companies, saving banks, commercial banks, investment companies, and endowed institutions"* (NBER, 1946, p. 2).

As can be witnessed from the *reported* statistics in NBER (1946) research, the Space and Practice of markets were starting to be *considered* as the *backbone* of the society through linking its working with savings, insurance, trusts and investment companies. It was considered as directly or indirectly *important* towards the *survival* of the economy at large through an argument that the *effective* working of the markets meant effective *returns* on savings and investments made by the citizens.

The Cowles Commission, located at the University of Chicago, actively sponsored and published a series of research seminars in the *area* of the market. The "Cowles program", according to Christ (1994, p. 31), "was intended to combine economic theory, statistical methods and observed data to construct and estimate a system of simultaneous equations that could describe the working of the economy." The Commission specifically *sought* and actively *sponsored* statistical and economic analysis of the market prices and practices (Augier & March, 2011; Christ, 1994). The Commission and other researchers were of the opinion that research about the stock market and related operations needed to be carried out on a *priority* basis due to its importance. This research was also deemed *necessary* so as to avoid the situation faced in 1929 and to be able to develop a *better* understanding of market practices.

For regulating a practice, as argued in the previous chapter, one needs examination of the practice. Examination, Foucault argues, "is a normalizing gaze, a surveillance, that makes it possible to qualify, to classify, and to punish" (Rabinow, 1984, p. 197). For achieving the *understanding* of the Practice of market, NBER (1946) in the same document, presented a seven point research agenda that outlined the areas and data sources with *tentative* structures

of the studies, the first one being the "Survey of the activities and institutions of the American securities market (NBER, 1946, p. 8).[54]

Foucault sees *truth*, as argued in Chapter Three, as something that is created through the nexus of power with knowledge that he calls power/knowledge. The phrase "creation of truth" implies that truth in human sciences, according to Foucault, is something which does not exist per se, but is the outcome of the process of examination that results in classifications and codifications. *Truth* once created defines for us the relations in an interaction, e.g. between God and His slaves, the state and its citizens, and defines for us the objects that can be categorized as superior or inferior. The absence of a *true* description of the Practice of markets with a codified distinction between gambling, speculation and investment (detailed analysis in from the Practice of markets perspective in De Goede, 2001, pp. 103-151 [chapter 3]) had been a long-standing issue that *hindered* the acceptability of stock exchanges as having *legitimate* Space, Text and Practice facets for the academics to *analyse*. The *normalization* of financial markets, however, helped in changing the subject position towards the Space of the market. In other words, the Space and Practice of the market had now through "legal normalization" (De Goede, 2001) enacted the *truth* that defined and differentiated the speculators, gamblers and *genuine* investors. This visibility of a *genuine* object of academic inquiry along with the Space, Text and Practice facets of the institution of business education allowed a *scientifically* rigorous subject position to study the market. Thus business schools of the time became a Space for the Practice of research on the Space, Text and Practice of markets. The Space of business schools and universities in general, which

[54] The areas identified by the report included: "i. Survey of the activities and institutions of the American security market; ii. The securities markets, savings, and capital formation; iii. The transfer function of the securities market; iv. The securities market in the financing of business enterprise; v. The securities market and investor; vi. Relation of government to securities market; and vii. Functioning of securities market in the American economy" (NBER, 1946).

previously recognized markets as inferior objects, had now sought research on markets and associated rewards in terms of promotions and access to funding for doing so. For example, consider the case of Luis Bachelier, who can be *rightly* called the *father* of modern finance as most of the earlier work in 'new finance' was inspired from his readings (MacKenzie, 2006). He achieved full professorship at a very late stage of his career because of this lack of prestige of the Space, Text and Practice of markets in his time vs. modern finance *scholars* who even had Nobel Prizes awarded to them[55] despite having a direct lineage with the work of Bachelier (De Goede, 2001). In short markets, which for a long time were considered *inferior* objects of analysis by economists because of their general *perception* as being places of speculations, were in the new *order* now becoming *important* object of analysis (MacKenzie, 2006).

As outlined in the previous chapter, the inclusion of the Space of schools of economics in the Space of business schools (Khurana, 2007; MacKenzie, 2006) required by AACSB helped initiate a strand of research where the emphasis was on *major* theoretical debates about codifying the Practice and Space of markets into identifiable and quantifiable outcomes (MacKenzie, 2006). The economist, in the new Space of business schools, was now *becoming* a financial economist who sought application of the Text of economics in the understandings of the Space of markets within the institution of business education. It was through such conceptualizations, and the Practice of targeted funding coupled with the institution of business education's *aspirations* to achieve the Text of scienticism, that statistically *sophisticated* analyses of the stock market would appear.

[55] Such as the 2013 Nobel Prize in Economics for Eugene Fama as well as for Robert Merton and Myron Scholes for their Black-Scholes Model in 1997.

Foucault (2002) sees the formation of domains of knowledge, such as EMH, through the processes of classification and categorization that provide a language. This language and vocabulary both facilitate speaking about and actualizing the power structures. In the system of classifications originating from the examination of the Practice of markets, we see two distinct *approaches* belonging to *academics* and to *practitioners.* These two were classifiable on the *basis* of their Text to the prices in the markets.

Prices, specifically from the *practitioner's* perspective, have been studied as early as the 16th century (MacKenzie, 2006), but the academic interest as a result of normalization in stock markets, specifically in the US, was a recent phenomenon. Samuelson, in his search for the academic *truth* of the market located the Bachelier study, which he terms as a "gem" that was "rotting in the library" in Paris, in the early 1950s (PBS, 2000). For academics, following Bachelier, the stock market price movement was a random walk, whereas the practitioners *believed* history repeats itself and one can predict future prices (Fama, 1965). The truth of market prices for academics was defined by a random walk, where "it is possible to study mathematically the static state of the market at a given instant" (Bachelier (1964:17) as qouted by De Goede, 2001, p. 227). Random walk theory is and was a popular research orientation at the time, and *seemed* a *natural* fit to the problem of stock prices to the statistically trained academic. On the other hand, the practitioners' *truth* of market prices argued for a knowledge that could not be quantified mathematically and required judgements guided by their "professionalism, experience and unique insight" (De Goede, 2001, p. 228) on the part of investment manager or analyst in determining the prices of securities. As noted before, business schools were looking for academic recognition and as such the Chartism and other *belief*-based price forecasting theories were deemed *unscientific* and *inappropriate* for the purpose of analysing the prices. In other words, for the Practice of analysing stock prices from the perspective of historical prices that required *judgements* and *insights*, the Text

behind the Practice of Chartism was the *condemned* unscientific and *belief*-based one that had *no relevance* for future price. The two knowledges, academic and practitioner-based, had different theorizations of the price changes that *worked* for their subject position originating from their respective institutions.

It is during the *period* of change, described in Chapter Five, in the subject position promulgated by the institution of business education, that EMH has its origins. At the time of its introduction the alternative academic Text that identified the *truth* of price movements was random and un-analysable and as such un-measurable, like Mandelbrot's "fractals" (The AFA, 2008a). As such, there was no plausible explanation as to how prices in markets change. Fama, however, does refer to the period as if *efficient* markets existed even before it was *made* visible through the theorization of markets in terms of efficiency. In the words of Fama, "this [1960s] is the period when work on efficient markets wasn't called that. Work on stock market returns was just beginning to take hold" (The AFA, 2008a, p. 8). The pre-dated work on market prices (described as work on the efficiency of markets) can be a reason behind some authors finding the history of EMH in 16th century. This is an approach that has attracted concerns from historiographers (see for example P. Miller & Napier, 1993).

Unlike the Text of the random walk theory, the Text of EMH provided a *clear* and *sophisticated* theorization of the Practice of price changes. It allowed the Space, Text and Practice of markets *accessible* for analysis, and renders it governable, which otherwise was a collection of a *confused wealth of representations*. The introduction of EMH made it possible to *see* that prices are neither coming through the Practice of speculation, nor are they acting randomly, but they change because of a legitimate reason i.e. *changes* in information that *relate* to security.

As argued earlier in Chapter Three, for Foucault knowledge creates opportunities for the exercise of powers, the power that not only *condemns* and *disciplines* but also produces

an avenue for *pleasure* and *reproduction* to further the nexus of power/knowledge. The same can be witnessed around the production of a *true* representation of market mechanisms through EMH. Gilson and Kaarman celebrated the EMH as "[it] has achieved the widest acceptance by the legal culture" and they (1984, p. 550) wrote, "it now informs academic literature on a variety of topics; it is addressed by major law schools casebooks and textbooks on business law, its structure is debated over the future of security regulations both within and without the Securities and Exchange Commission (SEC)." In other words, Gilson and Kaarman (1984) *witnessed* a major theoretical revision of the Space, Text and Practice of markets resulting from the Text of EMH because of its ability to render the market analysable. They go on to argue that, "it has served as the intellectual premise for a major revision of the disclosure system administered by the Commission; and it has even begun to influence judicial decisions and the actual practice of law. In short the EMH is now the context in which serious discussion of the regulation of financial markets takes place" (Gilson & Kaarman, 1984, pp. 550, emphasis removed). The *control* that EMH *symbolised* was important, especially in the context of the discourses related to the market that argued it to be the *backbone* of society. The Security and Exchange Commission was enacted in 1934 to *regulate* and *discipline* the Space and Practice of markets, but it lacked the Text through which it could effectively *judge* the relations between the Space and Practice of markets to *identify* the good and bad. The Text through which the Practice in the Space of markets could be judged was provided through EMH in the late 1960s because of its ability to map the process of price changes that *inspired* not only finance academics but also law academics and practitioners as well as the regulators. Whitley's (1968) argument about ERISA's definition of the *prudent man* is an example that has already been discussed in Chapter One. Saari (1977), on the other hand, after an extensive review of literature that according to him demonstrated that the prices are *consistent* with the *theorization* provided by EMH, criticized

the *slowness* in the response by SEC to this great discovery of *truth*. He urged SEC to take drastic departures from its current regulations as, in an efficient market, it was not possible for the security to be overpriced. He also suggested that SEC allow publication of the soft information as it can arguably play a *pivotal* role in *disseminating* the information to market and as such in the pricing of the security.[56] He also urged SEC to *reconsider* the insider trading laws as it can also increase the *speed* of the information flow to the markets. In other words, EMH provided the *gaze* through which SEC could now effectively *discipline* the Space and Practice of markets by enacting a Text that was guided by understanding derived from EMH and Saari (1977) wanted SEC to establish the Text with the help of the *truth* of EMH. It *enabled* the regulators to exercise *regulatory control* over markets, which previously were based on morality (De Goede, 2001, 2005b).

To summarize the discussion so far, I started my institutional history of EMH with an argument about the change in *order* for the institution of business education. The new *order* of business education, as argued earlier in Chapter Five, sought a subject position that allowed *theoretical* understanding of the markets based on the Text of scienticism. The normalization of financial markets made it possible for academics to seek an examination of the institution of the market. The enabling Space of business schools allowed the Practice of research on the Space of markets and consequently we saw a proliferation of research. The initial move towards the *scientific* analysis of the market, following Bachelier's work, was to understand it from the perspective of random walks. However, a random walk was only able to provide a guideline that could allow it through an *ad hoc* explanation by *freezing* market prices at a certain point in time and mapping the distribution that had little relevance towards

[56] Soft information by definition is the information that management perceives true about the future of the company e.g. an unconfirmed contract.

the *actual* mechanism of price changes. The *effects* of information on prices as described in standard history were starting to appear in the latter half of the century. Ashley's (1962) paper studied it, but his analysis did not reveal the *efficiency* of markets, and for him it took at least three to four days for the market to reach equilibrium. The *invisible hand* of Adam Smith's economy, however, provided a different idea and argued that markets should be able to take care of it much sooner than the time identified by Ashley (1962) through the *rational actors*. EMH was able to fill this *gap* that allowed its legal and academic *acceptance*.

As argued earlier in Chapter Five, beneath the appearance of continuity there is a history of disruptions and beneath the history of an acceptance there is a violent history that is full of displacements. These acceptances and displacements, according to Foucault, are a *product* of the system of classification produced through power/knowledge that enables the knowledge to create the *truth* that defines for us the *good* and the *bad*. The system of classifications related to the Space and Practice of markets, as argued earlier in the chapter, created two distinct *truths,* the practitioner truth and the academic truth to changes in prices.

"In the 1960s and 1970s financial mathematicians continued to voice their belief that" De Goede (2001) writes, quoting Malkiel (1990, p. 24), "a *blindfolded monkey* throwing darts at a newspaper's financial pages could *select* a portfolio that would do just as well as the one *carefully* selected by the *experts*" (pp. 229, emphasis added). In other words, the academic *truth,* represented by EMH, argued that the efforts of the fund managers are futile since prices adjust quickly to information; therefore it is impossible for fund managers to outperform the market. This was implying that there are no arbitrage opportunities that could be exploited systematically, and if any fund manager outperformed the market it was through chance and not because of his ability to choose better securities. Malkiel (2003) puts this as:

> *"Surely, if market prices were determined by 'irrational investor' and 'systematically deviated' from 'rational estimates' of the present value of corporations, and if it were easy to spot predictable patterns in security*

> *returns or anomalous security prices, then professional fund managers should be able to beat the market. Direct tests of the actual performance of professionals, who often are compensated with strong incentives to outperform the market, should represent the most compelling evidence of market efficiency"* (Malkiel, 2003, pp. 77, emphasis added).

In other words, the *invisible hand*, working through the rational actors in the market, would have already taken all the available information relevant to the security, and as such there will be no opportunity for the *professional* fund manager to outperform the market. Academic finance, specifically *followers* of Friedman's positivism, sought to produce valid and testable knowledge (Frankfurter, 2007; Frankfurter & McGoun, 1996; MacKenzie, 2006). In the case of EMH this *valid* knowledge was testable in the most *sophisticated* of the mathematical models of the time that could provide an explanation to CAPM which already had a degree of acceptance in the practitioner. Fama (The AFA, 2008a; see also Frankfurter, 2007; Frankfurter & McGoun, 1996, 1999; MacKenzie, 2006) explains this relationship between asset pricing models and EMH as:

> "*… you couldn't test market efficiency without combining it with some hypothesis about what the market is trying to do. You needed a model of market equilibrium. So basically you need an asset-pricing model. Then you can test market efficiency. The reverse is also true. You can't test most asset pricing models without testing market efficiency. There's always this joint-hypothesis problem, both in tests of market efficiency and in tests of asset pricing models"* (p. 11).

The practitioner's claim to *truth* of the market price emphasized insights and judgements that would argue for the historical role of trends in the prices of security that were *exploitable* to make profit. In other words, their *claim* to the validity of their version of the *truth* lay in their ability to make profits in the Space of the market. The practitioner version of the truth argued that "a *diligent* student of price graphs, deploying the techniques of Chartism, could *detect* trends not just in retrospect but as – or indeed before – they happened" (MacKenzie, 2006, pp. 75, emphasis added). Practitioners, in support of their claims, would frequently produce an article that would negate the *truth* of market efficiency. For the

practitioner, their *compensation* was justified, as they were *professionals* having certified *expertise* in investment analysis recognized by the Association of Investment Management and Research (AIMR), now known as Institute of Chartered Financial Analysts (CFA Institute). For them, the evidence *against* the *truth* of EMH was there and would be *presented*. According to Frankfurter and McGoun (1996), quoting William Jahnke (1994, p. 7-8), a practitioner, argues that:

> *"The CRSP [Centre for Research in Security Prices] seminars, as they were called, provided an ideological home for those desirous of promoting an efficient market agenda … the few brave souls venturing to the CRSP with 'evidence' contradicting CAPM were met by a band of academics known as 'Murderers Row' who usually made quick work of dispatching the heretic"* (pp. 59, emphasis added by Frankfurter & McGoun).

In other words, for practitioners their version of *truth* stood *true* related to the Space and Practice of markets, but academics would reject it not through *logic* and mathematics but through *force*. Frankfurter and McGoun (1996) compares the role of EMH in financial economics to that of the "Ten Commandments inscribed by Moses" (p. 60; see also MacKenzie, 2006, p. 95) and as such beyond any doubt. For them it may have been possible to refute the *examination* of EMH, but not the *validity* of it.

In the midst of these alternative claims to truth, Jensen (1968) found a way through which the Practice of the market could be *judged*. Jensen (1968) used the financial data available, and utilizing academic *truth* he studied the performance of 115 fund managers between 1945-64 and concluded that they "were *on average* not able to predict security prices well enough to outperform a buy-the-market-and-hold policy, but also that there is very little evidence that any *individual* fund was able to do *significantly* better than that which we expected from mere random chance" (Jensen, 1968, pp. 415, emphasis in original). The reason for developing the *standard*, according to Jensen, was to *help* evaluate the performance of the fund managers. This test of performance of fund managers represents the

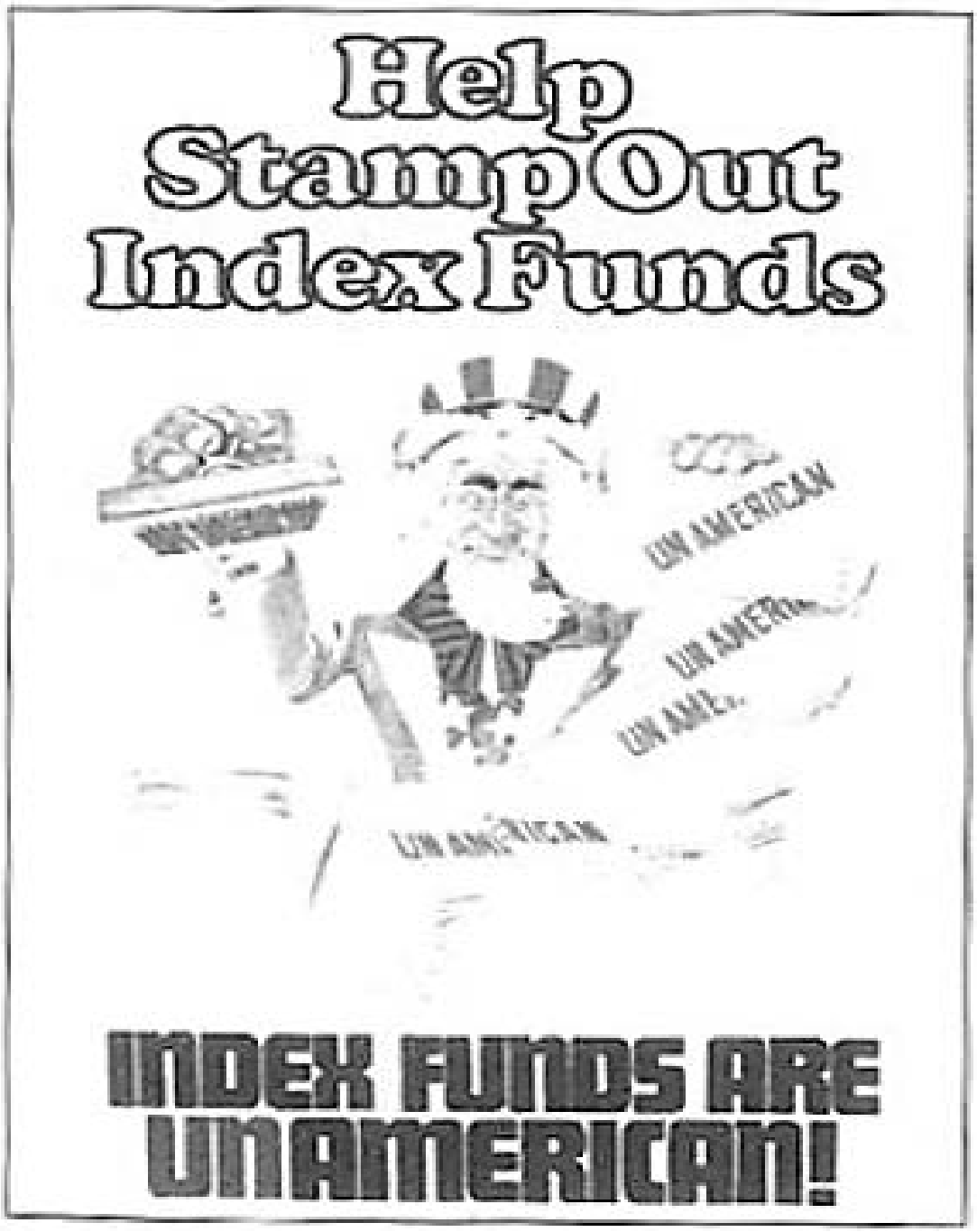
intense period of disruption in the process of knowledge and truth creation in the institution of academic finance.

Foucault in *Nietzsche, genealogy, history* argues that "origin lies at a place of inevitable loss, the point where the truth of things corresponded to a truthful discourse … [and] truth is undoubtedly the sort of error that cannot be refuted because it was hardened into an unalterable form in the long baking process of history" (Rabinow, 1984, p. 80). In other words, the truth is created via the truthful discourse which renders the alternative truth an error, consequently forming the history of error that previously appears to be true. In financial economics, the new truth presented by academics originates where the previous truth presented by practitioners becomes an error. Merton (1994, p. 452) captures this moment of emergence of truth of financial economics by arguing that "during most of the period (1960s and before), finance was almost entirely a descriptive discipline with a focus on institutional and legal matters. Finance theory was a collection of anecdotes, rule of thumb and shuffling of accounting data" (quoted in De Goede, 2001, p. 229). The claim of *professionalism* by the practitioner was no longer the *truth* of finance, and instead it was the truth of financial economics that represented the *reality*. The retrospective evaluations, as presented by Merton (1994), were made possible through the discourses developed by Jensen (1968) and other *financial economists* of the period. The Jensen (1968) test has two associated outcomes attached to it. First it produced the *examination* through which the performance of fund managers could be judged. The examination, as argued earlier in Chapter Five, produces the *conditions of possibilities* for a claim to establish itself as a truth. The truth, having its origin in the test provided by Jensen (1968), and subsequent studies of the same nature, *concluded* that the *professional* knowledge of the fund manager is a *myth* that does not add any *value* and the academic Text that relates to the Space and Practice of the market is the truth, e.g. EMH. The second outcome of the Text was the possibility to establish a "buy-the-market-

and-hold" fund that could produce better results without the associated costs of finding a professional fund manager. The opportunity produced by the knowledge was tapped into by Wells Fargo, who established an index fund in 1971 (MacKenzie, 2006) based on the Jensen (1968) buy-the-market-and-hold *standard.*

The creation of index funds, a direct *threat* to the *professional* fund manager's knowledge of the Space and Practice of markets, was met with fierce opposition from active fund managers to the extent that they called it "indexing is un-American" (MacKenzie, 2006, p. 86), perhaps tapping into the legitimacy of the Committee on Un-American Activities established in 1938 to investigate communist ties. Banners with slogans such as "indexing is un-American" were made and displayed by fund managers at their doors. Besides using the emotional rhetoric *against* index funds, the fund managers used statistical analysis and arguments (Good, Ferguson, & Treynor, 1976). Practitioner journals such as the *Financial Review* and *Financial Analyst Journal* regularly produced articles (see e.g. Calderwood, 1977; Ferguson, 1975; Murphy, 1977) that would describe the strategies through which the returns generated through index funds could be *beaten*. After a lengthy discussion about the index fund method and its usability, Good, Ferguson and Treynor (1976, p. 32) concluded that:

> *"For pragmatists who are reserving judgment on index funds until more performance data are available, it should be pointed out that the answer is already in. Apart from possible savings in transaction costs, the index fund is not intended to provide higher returns than the average for other investors. If, in a given period, the S&P 500 appears to have produced substantially better results than the total for other investors, it is because the S&P 500 falls short of the index fund goal of representing the entire market. There is no reason in index fund theory to expect that the situation will not be reversed in another period. Comparison of index funds with managed port-folios, moreover, must distinguish between the performance of the index and the performance of the index fund. Because of cumulative slippage resulting from transaction costs, an index fund based on the S&P 500 has no hope of keeping pace with the performance of the S&P 500 itself."*



Source: downloaded from https://www.meesman.nl/geschiedenis

The claims to alternative *truth* did not remain only in practitioner and academic communities; they entered the public domain under the title "Wall Street Dartboard Contest" when in the 1980s the *Wall Street Journal* started publishing a competition between the experts representing the practitioners and securities selected through throwing darts at the finance page of the newspaper (MacKenzie, 2006). The result of the contest was used

extensively by academics to establish the validity of their claim to the truth about the Space and Practice of markets (see e.g. Ferraro & Stanley, 2000).

According to MacKenzie (2006), "opposition from the stock pickers did not, however, stem the flow towards indexation. During the 1970s more and more pension funds began placing at least some of their investment under *passive* management, and *soon* index funds also began to be sold to general public" (MacKenzie, 2006, p. 86). In other words, the truth of academic finance was able to generate a momentum via creating the truthful discourse. In this period, some of the influential journals were started such as the *Journal of Financial and Quantitative Analysis* (JFQA) and the *Journal of Financial Economics* (JFE). Besides the journals, five *regional* finance associations within the US in addition to the American Finance Association also *emerged* (Sweetser & Petry, 1981) who were producing even more stronger evidence to claim their version of the truth.

To conclude the discussion on EMH and its institutionalization, as stated in the standard history, the period of 1950s and early 1960s witnessed the revival of the US stock market and prices were generally rising. It can be argued that if the same would have continued the field of finance would not have changed much and the respective claims to *truth* by the practitioners and the academics would have remained theoretical, as in the discourse of management and organization theory where the two *truths* representing academic and practitioner have clear boundaries.

However, the late 1960s saw a sharp decline that continued into the early 1970s caused by the oil shock and hyperinflation. According to Mackenzie (2006) this was the period that practitioners *sought* the academics' perspectives to understand the *reasons*. Their claim to validity of their *truth* was *compromised* due to the losses generated by their portfolios. The events and sharp decline in the stock market brought into question the legitimacy of the fund managers' knowledge. Their inability to foresee the events rendered

their knowledge and methods *unsophisticated* and *unscientific*. The long-standing practices of practitioners were no longer able to satisfy their clients. For practitioners it now made *sense* to know the *beta*[57] of the stocks that a fund manager was investing in that led to publications called "beta books" (MacKenzie, 2006). Some of the practitioners took steps that went beyond the "beta book". They started to agree with the arguments of EMH, whereby the markets cannot be systematically beaten and the fees and transactions costs associated with the active fund management were a liability on the investors that could be easily *avoided* by creating a passively managed fund. [58]

However, as argued in this chapter, the acceptance of the index fund and financial theories in general cannot be associated only with the *validity* of the claims and its statistical testability. There were compromises made between the respective versions of the truth. While practitioners ended up accepting the claims of EMH, index funds became a popular place to invest in for the public. The academics themselves made adjustments in the claims made through EMH because of the *anomalies*. For example, in a review paper, Fama (1970) identified three forms of efficiency that he called Weak form, Semi-strong and Strong form, a deviation from the earlier theorization of the *truth* of the Practice of markets. The Weak form of efficiency accepted the practitioner claim of intrinsic value of stock but argued that through *rational* actors the present value will always represent the intrinsic value that practitioners so *desperately* seek to find out. In the second Semi-Strong form, Fama (1970) argued that stocks would have already incorporated all public information and finally the

[57] Measure of risk of a security

[58] A fund is said to be actively managed when there are regular transactions carried in the portfolio. It involves making money through forecasting and timing. On the other hand, passive management involves buying securities that represent the spread of market and are not actively managed.

third Strong form of efficiency was concluded as having no empirical evidence. Fama (The AFA, 2008a) acknowledges the fact in the following quote:

> *"That's really strong. It can't possibly be true. No model is ever true, but I think it's a good approximation for almost every practical purpose I've come across. So I think it was and is a good approximation to the way prices actually behave"* (The AFA, 2008a, p. 10).

6.5 Conclusion

This chapter is an attempt to answer the second question of the three questions raised in Chapter Four regarding the institutionalization of academic finance. To recap, the answer was offered in terms of historical contingencies in the *formation* of academic finance discourse that aspired to scientific ways of analysing the Space and Practice of markets to establish a Text through which it can be analysed.

I offered my answer to the question of institutionalization by linking it with the Space of the business school that sought *scientific* analysis of the Practice of markets, when it became a legitimate Space of analysis through the normalization resulting from the regulatory efforts after the 1929 market crash. Researching the Space and Practice of markets, previously an inferior object of analysis, through the efforts of the Text of the multi-disciplinary models of the Practice of research and the Practice of targeted funding by foundations such as the Cowles Commission and others encouraged seeking alternative Text of the relations between Space and Practice of market. The system of classification resulting from academic inquiry produced two alternative truths: the practitioner truth which emphasized fundamental analysis and Chartism; and the academic truth that sought the role of a random walk and the efficiency of the market. I also discussed the political efforts from both sides to have their version of the truth established as the result. However, it was the events surrounding the Space, Text and Practice of markets that eventually led to acceptance

of the academic version of truth (toned down to criticism levelled against it) established as the true representation that outlined the Text between the Space and Practice of the market.

Throughout this thesis I have argued that by taking a close account of the three facets of discourse we can locate the historical subject position promulgated by an institution, and through studying the change in subject position we can study the changes in institutions. As in the case of EMH, by having a look at the standard history we can identify the relevant themes related to Space, Text and Practice to gain an insight into studying the conditions of possibilities for institutionalization of a phenomenon.

While the standard history, for example the one by Weston (1994) and Sewell (2011), provides us with a linear historical emergence of EMH that usually associates the institutionalization with the efforts of Eugene Fama, by arguing that he *finally* captured the reality of the strand of work that existed since the 16th century. Foucault (In Rabinow, 1984 p. 111) argues that modern history locates the progress of an idea through authors as they represent "a point where contradictions are resolved, where incompatible elements are at last tied together or organized around a fundamental or originating contradiction." He argues that instead of associating the formation of a discourse to a single unitary author, one needs to look at the discourse from its modes of existence. In this chapter, I have argued for the role of three facets of the discourse to capture the historicity and political contestations in the institutionalization of EMH. While MacKenzie (2006), Frankfurter and McGoun (1996) and Frankfurter (2007) find the institutionalization of EMH in its performativity, I argued that in order to establish it as Text that guides the subject position's Practice within the Space of an institution, EMH had to present itself as *truth.* As argued earlier, the established *truth* is not truth per se but a regime of truth.

Chapter 7: Instituting Practice: Institutionalization of Methodology of Academic Finance

"Self-formation … takes place through a variety of operations on [people's] own bodies, on their own souls, on their own thoughts, on their own conduct"

(Rabinow, 1984, p. 11)

7.1 Introduction

In Chapter Four, I particularised my experience with the two institutions (academic finance and Islam) and argued that an institution promulgates its subject position through its Space, Text and Practice. The experience led me to ask two questions, *Why* and *How*. To understand the *How* of academic finance, I raised three questions. The first question, "What factors contributed towards its origin and how its boundaries were worked out" was answered in Chapter Five where I discussed the formation of the Space of business school that emphasized scienticism and an empirically rich analytical understanding of the subjects taught there. The answer to the second question, "Where does the discourse of finance direct our attention [to] and avert our attention from" was offered in Chapter Six through examining the history of institutionalization of EMH. This chapter builds on the previous two and studies the Practice facet of academic finance and offers an answer to "in what ways the discourse of academic finance shapes the practices of self and self-discipline."

Before elaborating on the third question, I will in the pages below first provide a summary of the answers offered to first two questions, which also serve as the Space and Text for the Practice of academic finance.

Space as defined in this thesis is the physical location as well as the institutional space that renders the individual governable and calculable. I argued that an institutional space is created through the techniques of "*the art of distribution*" (Foucault, 1977, pp. 141-149) through which a calculable and governable *individual* is created via *enclosure, partitioning, functional sites,* and *ranks.* The clearly identifiable and differentiable Space, according to Foucault (1977), renders the *individual* both calculable and observable thus allowing *effective* control over the body. Chapter Five provided a history of the processes through which we came to know of the Space of business schools. The Space that was a *heterogeneous* Space identifying itself as a Space for imparting knowledge related to the *business* but at the same time was a *distinct* Space that was closed for the *non-business* knowledge. The Space that had *partitioning* between the business and non-business knowledges as well as differentiating itself from within, i.e. industrial relations, finance, marketing etc., each with an *assigned* Space to whom they belonged and each *having* its Space that belonged to them. This *partitioning* is the requirement for a discipline to operate on the *individual* so as to avoid and "eliminate the effects of imprecise distributions, the uncontrolled disappearances of the individuals" (Foucault, 1977, p. 143). The partitioning within the Space of business schools' *individuals* operated via the services they needed to provide for the businesses. Thus we have the division between finance, management, marketing etc. However, Foucault (1977) argues that partitioning alone is not sufficient for *the* efficient operations, and it can lead to erroneous assumptions, e.g. in the case of business education the assumption that vocationalism that emphasized the operations of business serves the purposes of the businesses. Thus for effective operations of a discipline, one needs to have *functional sites*. These, according to Foucault (1977), provide "a filter, a mechanism that pins down and partitions … provides a hold over this whole mobile, swarming mass, by dissipating the confusion of illegality and evil" (p. 144) and as such enables the effective governance of

individuals. In the context of the discipline of academic finance, the *functions site*, as described in Chapter Five, will come from the overall university through its goals, AACSB, philanthropic foundations and government. The last mechanism in *the art of distribution* is the *rank*. The rank "individualizes the bodies by a location that does not give them a fixed position" argues Foucault (1977, p. 146), "but distributes them and circulates them in a network of relations." The *rank*, in other words, produces the 'ideal' and the 'condemned': the 'ideal' that needs to be *followed* and the condemned that needs to be *avoided*. The *ranking* according to Foucault (1977) makes a "space function like a learning machine, [and] also as a machine for supervising, hierarchizing, rewarding" (p. 147). In the case of academic finance, the purpose of *ranks* was served by the *centres of excellence* such as GSIA, as discussed in Chapter Five.

The second facet of discourse, that I call Text, is the process through which we come to identify the *standard* or the *suggested* pattern of action within an institution. I define Text, for the purposes of this thesis, to be the process through which *truth* is created. For Foucault (in Rabinow, 1984) the creation of *truth* involves an association with the *truthful discourse* that involves techniques such as *surveillance*, *observations*, *normalization* and *examination* (Foucault, 1977, pp. 170-171). The Text of academic finance was studied in Chapter Six through an analysis of the institutionalization of the *truth* of Efficient Market Hypothesis. In there, I argued that academic interest towards studying market was made possible through creation of the Space of the business schools and the normalization of the Space of markets. The academic interest in the market resulted in two alternative *truths* of the Practice of market: the *practitioner truth* and the *academic truth*. Academic finance, as argued earlier in Chapter One, has a "porous boundary" with the practice of finance (MacKenzie, 2006). Thus the *surveillance*, *observations*, *normalization* and *examination* of the discipline originated both from within the Space of academic finance and the Space of markets through the

Security and Exchange Commission, the courts, other disciplines and the practitioners themselves. Specifically I discussed the role of SEC, which being the disciplinary *gaze* created for subjecting the market to regulations, needed a mechanism that could provide an uninterrupted observation of the Practice of market. The other examination that I discussed was the ability of the academic *truth* to create the possibility of examining the practitioner *truth* through the Jensen (1968) test that provided an evaluation of the performance of fund managers.

In this chapter, I will emphasize the role of Practice within the Space of the institution of academic finance. Practice, as defined in this thesis, is the response that conforms to the Text of an institution within its Space. Practice, thus, represents the mode of existence of the discourse of academic finance through which the subject position created via Space and Text is actualized or resisted. Practice can either be actualized by the subject within the domain of the institution or be resisted through his actions (Dean, 1999). Power, as noted earlier in Chapter Three, operates as a network where both dominance and resistance exist (Foucault, 1982). Foucault (in Rabinow, 1984) adds to it that "perhaps it is time to study discourse not only in terms of their expressive value or formal transformation, but according to their modes of existence. The modes of circulation, valorisation, attribution, and appropriation" (p. 117). Practice of an institution is the apparatus through which it is sustained as well as modified.

Keeping in view the definition adopted, the Practice of academic finance can be identified as the Practice of teaching and research and an approximation of the same, as per Ardalan (2008), can be obtained by studying the *structure* through which current and future knowledge is organized. Ardalan (2008, p. 9) describes that the structure of the academic field of finance can be studied through an examination of "its theories, PhD programmes, journals, and conferences." In other words, the modes of existence of the discourse of academic field i.e. journals, research, textbooks, conferences, associations etc. provide it the

continuity, appropriation and circulation through which it produces and reproduces itself. These modes of existence serve the purpose of mobilization (Hambrick & Chen, 2008) for the discourse that actualizes the domination and/or resistance against the identity created through Space and Text. Mobilization, according to Hambrick and Chen (2008) serve as one of the mechanisms through which power relations are actualized (see also Foucault, 1982; Prichard, 2004).

7.2 Institutionalizing the Methodology of Academic Finance

In his book MacKenzie (2006) argues that "the laying out of the efficient-market hypothesis by Fama was the capstone of the transformation of the academic study of finance … what started as *separate* streams – the Modigliani-Miller 'irrelevance' propositions, portfolio theory and the Capital Asset Pricing Model, the random walk model – were by 1970 seen as part of a largely *coherent* view of financial markets" (pp. 66, emphasis added). In other words, by the 1970s the Space and Text of *modern* finance had been institutionalized that enabled the identity of *new* finance. The identity that now appears to have a *coherent* body known as *modern* finance, as argued earlier in Chapter Five, is a collection of dispersed theories having claims to *truth.* The *truth*, as described in Chapter Six, is created via its association with *truthful discourse* that involves a series of disruptions and displacements among the alternative claims. To elaborate, consider the example of the Calkins (1949; see also Weston, 1966) and Weston (1994) systems of classification adopted to present the subject matter of academic finance. Calkins (1949) identifies finance as having two fields that he calls *economic* and *practical*. In contrast to the two, Weston (1994) provides 11 well-recognized and celebrated fields that represent finance, none of which he calls *economic* and/or *practical*.

A look at the research and its publication pattern of the early *modern* finance theories reinforces it even further. From an analysis of the table below, the theories originating within different traditions (ranging from economics, industrial management, business, operational research and finance) by the 1970s form a *coherent* body of knowledge known as modern finance where these theories combine under a common banner and cite each other.

Table 7.1: Publication pattern of early modern finance theories

Theory	Proposed by	Explanation	Journal
Portfolio Selection	Markowitz (1952, 1959)	There is an efficient frontier that can be selected by a rational investor, and this selection represents the best option with optimal return to suit the preferences of an investor	Journal of Finance[59] (1952) Book (1959)
Capital Structure Irrelevance	Modigliani and Miller (1958)	In a *perfect market* neither the total market value nor the average cost of capital is affected by the capital structure	American Economic Review
Dividend Irrelevance	Miller and Modigliani (1961)	The irrelevance of dividend in the valuation of a stock	Journal of Business
Capital Asset Pricing Model	Sharpe (1963a, 1964)	The price of the asset depends upon the risk attached to it – used for calculation Beta	Management Science (1963) Journal of Finance (1964)
Random Walk Theory	Samuelson (1965)	Prices of security do not follow a historical pattern, but move randomly	Industrial Management Review
Efficient Market Hypothesis	Fama (1965) Fama, Fisher, Jensen and Roll (1969) Fama (1970)	The prices of securities adjust to new information and present value represents the best value of the stock	Journal of Business (1965) International Economic Review (1969) Journal of Finance (1970)

[59] The reason for publication in the *Journal of Finance* explained in Chapter Five.

For example, in his 1970 review paper of EMH Fama cites the work of Markowitz (1952, 1959), Sharpe (1963a, 1964), Modigliani and Miller (1958), Miller and Modigliani (1961), and Samuelson (1965) besides his own earlier *work* on EMH and random walk (see also the history of JoF by Kavesh et al., 1970). By 1974 this *new* body of knowledge had achieved the *status* where another journal was required as "the Journal of Finance was not interested in publishing research in *their* area" (Jensen (2006) quoted in Clark & Wright, 2008, pp. 177, emphasis added). In other words, for Michael Jensen the publication policy of Journal of Finance was unable to serve the needs of the *new* finance because of its *outdated* policies which at that time still accommodated both practitioners' and academics' views (Weston, 1967).

Heck, Cooley and Hubbard (1986) studied the practitioner and academic contributions in the journal and provided the following statistics, which clearly show the declining acceptance of contributions from outside academic institutions..

Table: 7.2 Contribution to Journal of Finance (by type)

Year	Academic Institution	Business/Government
1946-55	65%	35%
1956-65	69	31
1966-75	86	14
1976-85	89	11

Source: Adopted from Heck, Cooley and Hubbard (1986, p. 1136)

As described earlier in Chapter One and Five, academic finance initially was a descriptive knowledge that outlined the business practices and the editorial policy of *Journal of Finance* belonging to initial institutionalization of academic finance accommodated both academic and practitioners knowledge. The *new* finance was abstract and dealt with the

practices of *future* and sought training the student for a career (see for example the discussion by Augier & March, 2011; Bach, 1956, 1958; Kavesh et al., 1970; Khurana, 2007; MacKenzie, 2006). This created the dissatisfaction among academics about the editorial policy of the journal. With the dissatisfaction with the editorial policy of the Journal of Finance, Michael Jensen launched an independent journal in 1974 under the name of Journal of Financial Economics to *accommodate* the *new* finance knowledge. Earlier The Western Finance Association, a regional association working with The American Finance Association had also launched their own journal in 1966 under the name of *Journal of Financial and Quantitative Analysis (JFQA)*. To accommodate similar concerns, The Eastern Finance Association launched the Appalachian *Financial Review* in 1966 (later renamed *The Financial Review* in 1972 (Sweetser, 1981; Sweetser & Petry, 1981)). The starting of new journals implies both the expansion of *new* finance as well as change that created opportunities for the new subject position to be actualized as identity.

Frankfurter and McGoun (1996) argue that "[in academic finance] the word *methodology* … is used most often as a synonym for *method*, to refer to the techniques of data acquisition and analysis in research, when it should instead refer to the underlying philosophy and logical structure of the process" (pp. 3, emphasis in original). They argue that finance academics needs to consider the difference and try to "advance methodology and meaning as important concern for finance" (Frankfurter & McGoun, 1996, p. 3). The comment from Frankfurter and McGoun (1996) represents academic finance's methodology as a *discipline,* whose *docile body* as per Foucault (1977), can be used, transformed and improved through disciplinary acts. The comment also elaborates academic finance's methodology as an institution which is described earlier in Chapter 2 as, "represent[ing] a social order or pattern that has attained a certain state or property" (Jepperson, 1991, p. 145). This thesis, as argued earlier, is an exploration as to how both these theoretical frameworks

(power/knowledge and institutional theory) can help us understand the institutionalization of academic finance. Throughout this thesis I argued that to understand institutions one needs to understand the "whole set of techniques, a whole corpus of methods and knowledges, descriptions, plans and data" (Foucault, 1977, p. 141). For the purpose of this thesis, I argued that we can locate these techniques, mechanisms, descriptions and plans through dividing the institutions into its three facets i.e. Space, Text and Practice. The division of discourse into its facets enables us understand and approximate the subject position that an institution promulgates. Derived through the experience of the finance lecturer, as elaborated in Chapter One, I argue that institutions should not be seen as existing *a priori* but be seen as a constituted through power/knowledge that creates its subject position.

The Space and Text once established provide an *identity*, one through which an *individual* can find himself in the crowd. Mechanisms of power both in terms of domination and resistance require identity. In other words, the structure of power requires the *individual* to be definable in terms of *me* vs. the *other,* that enables both self-formation and mobilization of resources and efforts to actualize the self that one wants to see himself as and see the *others* to see in him (Foucault, 1977, 1982; Rabinow, 1984). This struggle for achieving the *identity* enables mobilization of resources and efforts (see for example Hambrick & Chen, 2008; Prichard, 2004). The mobilization enables the institutionalization of the Practice facet of the discourse, the third facet, which I define as the response of the *individual* to the Space and the Text of an institution. As argued earlier, the approximation of the practice can be obtained by looking at the textbooks, PhD programmes, journal contents, seminars and academic associations which also serve as the sources through which the mobilization mechanism for the *identity* can be actualized and enable the Space and Text to establish its Practice.

Textbooks are an important source of understanding both the current and future Practice of an academic field as they impart those *initial* instructions to the aspirants who may either become practitioners or academics (Whitley, 1986a). In both capacities, these *individuals* create value for the contents, either by *recognizing* the practical importance of the contents in setting the Text of hiring or through *further* research. Textbooks, in other words, provide the disciplining technique that provides continuity to the identity within an academic field. Norgaard (1981) studied the contents of the business finance textbooks from 1897 up until 1979 and provided a tabulated comparison between the textbooks' change in direction in *old* and *new* finance. The tables produced by Norgaard (1981) are provided below followed by an analysis in terms of the Space and Text relevance for the change.

Table 7.3: A comparison of the content of major organization finance texts (old finance)

Subject	Percentage of pages devoted to subject			
	Mead (1910)	**Gerstenberg (1924)**	**Guthmann and Dougall (1940)**	**Dewing (1953)**
Introduction: Forms of organization	3	17	10	3
Promotion	22	7	15	16
Investment Banking	11	9	14	10
Income Management	17	10	8	18
Working Capital Management	0	12	8	2
Securities	20	18	18	15
Mergers and Acquisition	11	17	12	14
Bankruptcies	16	10	11	22
Social	0	0	4	0

Source: Adopted from Norgaard (1981, p. 36)

In contrast to this, his analysis of the contents of the textbooks between 1959 and 1968 had the following statistics:

Table 7.4: A comparison of three major basic finance text (new finance)			
	Percentage of pages devoted to subject		
Subject	**Johnson (1959)**	**Weston (1962)**	**Van Horne (1968)**
Financial Management	9.5	8.1	2.2
Financial Analysis and Control	4.6	7	4
Financial Planning	14.8	11.7	3.3
Capital Budgeting	5.1	5.2	17.3
Cost of Capital	0	5.5	12.7
Working Capital Management	10.6	5.6	15.8
Capital Markets	5.8	10.6	3.9
Sources of Short-and-Intermediate Term Funds	24.6	6.9	11.9
Sources of Long-Term Funds	15.6	12.8	14.5
Dividend Policy	0.1	4.1	7.5
Valuation, Mergers, and Acquisitions	7.1	9.4	4.4
Bankruptcy	2	6.9	2.9
Integrated View	0	6.3	0
Source: Adopted from Norgaard (1981, p. 40)			

As can be seen from the two tables above the relative importance given to specific knowledge was replaced by titles such as planning, management and control which is reflective of the Text of academic finance that sought scienticism. Norgaard argued "that by 1970 the *old* finance approach had no market" (Norgaard, 1981, p. 40) and books having vocational contents would get negative reviews from the reviewers. For example, he quotes Hardin (1975, p. 1164) who commented on a book that "our primary responsibility to today's student is to prepare them for decision making in a world of tomorrow … our emphasis should be on understanding how finance decisions affect value" (Norgaard, 1981, p. 40). Hardin's (1975) comment was in perfect coordination with those of Bach (1956, 1958). It does not mean that *new* finance had no resistance from *old* finance. However, as per Whitley (1986a), because of rapid expansion in the requirement of business school faculty the threat

for *old* finance identity was low. Foucault (2002) argues that knowledge and critique on it actualizes the knowledge to become discourse. Thus when Durand (1968) responds to new finance as 'mathematical prowess' that has nothing to do with the knowledge of finance, he both recognizes the existence of new finance and actualizes the legitimacy of the knowledge (see also the discussion by McGoun, 1992, p. about CAPM).

From the Space, Text and Practice perspective, the changes captured by Norgaard (1981) in the contents of textbooks reflects the changes in the subject position being promulgated by the institution of business education through the normalizations and mobilizations to actualize the *identity* which sought scientific *knowledge* of the firm as opposed to vocational understanding of its *activities*. In other words, the Practice, being the response generated within an institution's Space guided by the Text, was changing from an emphasis on vocational knowledge to that of scientific. The Space of business schools, which until the late 1950s had the Text of hiring part-time business professionals, by the end of 1970s had an overwhelming majority of full-time faculty that had PhDs in economics (see for example the discussions in AACSB, 1955, 1966; Gordon & Howell, 1959; Keller, 1967; Khurana, 2007; MacKenzie, 2006; Whitley, 1986a, 1986b). In the words of Whitley (1986a), the *knowledge* which was primarily a product of practitioners was now replaced by the "conceptions of scientific knowledge and research procedures drawn from economics and applied mathematics/statistics" (p. 151).

Publishing books and textbooks are not just for imparting knowledge, but also has economic motives behind it (Norgaard, 1981). And its profitability, and the profitability for the publisher as well as the writer, is dependent upon the positive reviews it receives (Frankfurter & McGoun, 1996). A negative review or the *hostile* reception from the academic reduces the profitability and as such the books will either not be published or will not become

the textbook. Frankfurter and McGoun (1996) in the preface of their book elaborate on the experience in the following words:

> "*it soon becomes clear that finding a publisher who would pursue the project not strictly for wealth maximization would be more than difficult. Indeed the mainstream publishers (with one exception) shied away from the idea in an instant*" (p. xiii).

The second source through which we can capture the Practice facet of academic finance, its mode of existence and continuity of its discourse, is the PhD programmes, which train the *coming* generation of teachers and researchers in the field. In terms of mobilization, the PhD programmes serve as the important Practice that ensures a continuous supply for the Space and Text to actualize the Practice that it promulgates. The *values* instilled in the student via the PhD process *define* the direction for the academic field in the future (Frankfurter, 2007). In other words, through PhDs and research, the continuity of the discourse is ensured. As discussed earlier in Chapter Five, many of the early *new* finance scholars had supervisor/student relationships belonging to either the GSIA or the University of Chicago. Related to PhD programmes is research whose output appears in Journals which accommodates the *original* research that subsequently makes its way into textbooks and other *popular* media sources.

Journal publications are considered an important achievement on the part of academic and punishment and reward structures are attached to it (Ardalan, 2008), and they are used to judge the *quality* of PhD programme of a university. Schweser (1977) studied the *effectiveness*[60]of the PhD programmes from 1964 through to 1975 in the different business schools and concluded that the Space of the University of Chicago, Berkeley and Stanford *dominated* the *Journal of Finance* publications. He showed that out of a total of 528

[60] Defined in terms of number of publications in journal and citations they get.

publications in the *Journal of Finance* between 1964 and 1975, 53 publications came from the University of Chicago, 27 from Berkeley and 27 from Stanford; totalling 20% of the total. All the three Spaces had an overwhelming concentration of economists in their faculty (Augier & March, 2011; Khurana, 2007; MacKenzie, 2006; Whitley, 1986a). Whitley (1986a) also describes that the business school located at the University of Chicago had a strong link with the economics department and for its faculty and students the journals published by the university, i.e. the *Journal of Business* and *Journal of Political Economy*, were a popular source of publication. This is implying that the relative importance of the Space of the University of Chicago in the Schweser (1977) study may not be an accurate reflection towards mobilizing the Practice of academic finance.

The mobilization within the Space of business school towards the Text of scienticism resulted in changing the nature of Practice of research and teaching. "The growth and maturation of the discipline itself, several other factors" argued Zivney and Bertin (1992), "such as an increasing supply of finance doctorates, greater institutional influence on research, and growing number of journal outlets" (p. 295). In other words, the *competition* to publish research outputs intensified, but with the increase in competition the outlets that would publish research also increased, as did the number of pages in a single issue/volume (see for example Kavesh et al., 1970; Sweetser, 1981; Zivney & Bertin, 1992). Both these necessitated the *ranking* that outlined the best and worst (Alexander & Mabry, 1994), and through its association with the need to publication in a PhD programme the best and worst universities and programmes. As a disciplinary technique, the *ranking* serves the important function of keeping the self-control over the activities that an individual. While punishing and rewarding the individual, according to Foucault (1977) are techniques that are sequential, the *ranking* creates a continuous self-formation mechanism which makes the *ideal* available

across time and space. The better ranked journal that academic can get their research published the better opportunity for the academic to be successful in his careers.

The ranking of journals and journal editorial policy serves as continuous disciplinary technique over the aspiring as well as established researchers and academics. Miller (2008) elaborated on his experience in publishing in finance journal and argued that "there is more paradigm consensus in finance, there is less emphasis on literature reviews, elaborate hypothesis development and the search for explanation. There is also a more developed set of methodological requirements to ensure rigour – methodologies with enough credibility that disconfirming results are easier to publish than in our own discipline" (D. Miller, 2008, p. 329). In other words, the journals in academic finance follow a strict editorial policy that reinforces the methodological rigour and discourages alternative perspective (see also Frankfurter, 2007). Earlier Sweetser and Petry (1981) provided a similar argument in which they celebrated the paradigmatic unity of academic finance and argued for the role of association and their role in achieving the same. They argued that "today the discipline is widely understood and accepted, well balanced internally, and an effective force in academic and management circles, credit for much of this development may be attributed to academic professional associations" (Sweetser & Petry, 1981, p. 46). The editors and reviewers usually hired/assigned for the review of submissions are themselves *disciplined* and have been through the same process of publications.

Foucault (1982) argues that power operate according to the objective associated with it. The objective can be for maintaining the current *identity* or the actualization of the new *identity*. He further notes that power relations may be actualized through and studied from the perspective of

> "*the threat of arms, by the effects of the word, by means of economic disparities, by more or less complex means of control, by system of surveillance, with or without archives, according to rules which are not*

explicit, fixed or modifiable, with or without technological means" (Foucault, 1982, p. 792).

As argued earlier, Space and Text facets of the discourse produce the subject position that can define and differentiate the *individual* from the crowd. Conferences and seminars (the way they are organized into streams, themes, side talks, interest groups, and calls for papers etc.) arranged by different academic associations are perhaps the most visible mechanism of power through which the Practice facet in an academic institution is realized. Many academic fields or sub-fields originate through such collective *identity* seeking. For example, as described in Chapter Five, the American Finance Association was proposed in 1939 during a luncheon at the American Economic Association because *finance* academics felt that they do not receive *proper* attention in the association (Kavesh et al., 1970; Sweetser & Petry, 1981). "This *fact*, along *recognition* of the need for some sort of *structure* or procedure that would" argues Sweetser and Petry (Sweetser & Petry, 1981, pp. 47, emphasis added) "bring *together* annually those with *similar* interests" led to launch of the American Finance Association in in 1940. The association was required, according to Harry G. Guthmann (as quoted by Sweetser & Petry, 1981, p. 48), to insure inclusion of "major topics currently engaging the world of finance … [and] to develop the managerial and business aspects of finance." Hambrick and Chen (2008) find a similar role of association and the embedded power structure of association when they seek the emergence of *strategic management* as an academic field. A detailed study of the academic finance associations was conducted by Sweetser (1981) and Sweetser and Petry (1981) that documents the role of academic association in mobilizing the resources towards actualizing the Practice of finance where each association having their own *identity* publish different journals, membership requirements etc. as discussed at the beginning of this Chapter.

However, not all *identity* seeking mobilizations are successful. As argued earlier in Chapter Three, the network of power incorporates in itself the existence of resistance and

how such resistance can be encountered. If there is a threat to *survival* for the old *identity* than the mobilization efforts for new *identity* will face stronger resistance. In the case of *new* finance, the threat to survival for *old* finance was low because of, as discussed in Chapter Five, the rapid expansion of the business education (see also Whitley, 1986a). However, in the case of *new* finance's own *identity* the threat was stronger, specifically because of its detachment from actual practices of the time (see for example Frankfurter, 2007; Frankfurter & McGoun, 1996; MacKenzie, 2006), and it met any opposition with stronger resistance. For example, consider the case of 'Murderers Row' in CRSP seminars as discussed in Chapter Six. Foucault, as discussed in Chapter Three, argues that discourse creates unequal opportunities for individuals and institutions in their social settings where one is understood to be the *Master* or expert and experienced and the other as inexperienced and naive. Frankfurter (1994) argues that the expert *new* finance scholars equipped with Friedmanite ideology were working under the assumption that "once the paradigm is developed, it has to be validated, verified and proved by application of a statistical models to an ever-increasing mass of data" (p. 228). In other words, the subject position of *new* finance promulgated a strong conviction on the scholars that they deemed it necessary to refute any evidence that would stand in contrast to their *identity*, specifically if it was coming from alternative truth such as practitioners and/or inexperienced scholars. While Eugene Fama, an active member of the "Murderers Row" (Frankfurter & McGoun, 1996) himself later refuted the validity of CAPM, he at the time served to mobilize the resources and efforts to refute any evidence presented against it. Seminars, such as the CRSP, are places where, according to Frankfurter and McGoun (2006) the evidence against the promulgated subject position (CAPM in this case) would be dealt with much stronger resistance (see also the discussion by Jahnke, 1994).

7.3 Conclusion

This chapter provided an analysis of the Practice facet of institution and argued for its relevance in actualizing the subject position produced by Space and Text facet of an institution. By linking the identity seeking mobilization of resources and efforts towards the subject position current chapter discussed the role of power structures (the modes of existence) towards the institutionalization of the Practice facet which requires both self-formation as well as mobilization of resources towards the true form of knowledge.

The Practice facet of the discourse of an institution, as argued earlier in Chapter Four, should not be confused with the actual actions within the bounds of the discourse. The action can be different from the guide to Practice that an institution provides. The actions of the individual within the Space and Text of an institution can be driven by the Text of another institution (see for example Friedland & Alford, 1991). Frankfurter who holds PhD in finance had the following observation to make about the institution of academic finance:

> "*My professional thinking turned 180° from the ruling dogma when I was first exposed, completely by coincidence, to philosophers of science the ilk of Popper, Kuhn and Lakatos. Although my ultimate academic degree declared that I was a Doctor of Philosophy (meaning a research degree), I have never, during some eight years of university education, had a course in philosophy. Reading some of the works of these philosophers, I realized that my research has been an imitation of others without understanding what lies beneath the surface and without contributing much to the process of discovery: the search for truth, that must be the ultimate, all dominant and most noble objective of science*" (Frankfurter, 2007, p. 170).

In other words, Frankfurter (2007) argues that when he was exposed to a different institution he grew sceptical of the Practice of academic finance. That resulted in questioning the Text of academic finance through adoption of Text of institution of philosophy and behavioural finance. This differentiation between the Practice facet of the institution and the action makes it possible for change in institutions which are frequent and continuous.

To conclude the chapter, the answer to *How* for the finance lecturer will lie in the analysis history of the institutionalization of the Space, Text and Practice of the institution of academic finance. History, as argued by Foucault (in Rabinow, 1984, p. 80), that consists of a "concrete body of a development, with its moments of intensity [and] its lapses." The comprehensive answer to *How* lies in the realization that the history belongs to those who can control the complex mechanism through which interpretations are controlled that provides the *monitoring* of subjugation of the self and others. In other words, the answer to *How* lies in the realization that there exists alternative *truths* which have been marginalized through individualization, partitioning, ranking, observation, examination and mobilization and in turn enable the institutionalization of the *truth* he consider to be *Truth* (Foucault, 1977).

Chapter 8: Conclusion

In our everyday life we follow certain patterns of actions that rarely raise an eyebrow as to "why we did what we just did". These actions are considered to be the natural part of life and are assumed to exist throughout the social and organizational life. As a student of organization, our concern remains with how such practices and organizations are created, governed and maintained. I started this thesis, with one such encounter from my daily life, i.e. my role as a finance lecturer and my role as a Muslim. Based on the norms attached to the two contexts I raised two questions *Why* and *How*. I tried to situate the answer to the questions within the framework of what is now known as organizational institutionalism.

Organizational institutionalism (and more broadly institutional theory) provides us with a set of tools that can be utilized to understand the processes of creation and changes in patterns of actions within and beyond organizations. As my search for answers to the two questions progressed I found a different set of techniques that also offered an answer to the same questions from the perspective known as discourse studies (Phillips et al., 2004). Both institutional theory and discourse studies however remain contested terrains with some occasional encounters between the two and some still advocating combining the two to produce a comprehensive institutional analysis (Clegg, 1994, 2010; Clegg et al., 2006; Cooper et al., 2008; Phillips et al., 2004).

The theoretical tools referred to above have their respective communities who tend to agree on the basics of their methodologies and methods (see for example the discussion by Kuhn, 1986; 1996 about academic communities). I provided a review of two of the paradigms within organizational institutionalism in Chapter Two and expanded the discussion in general on institutional theory in Chapter Four and argued for an alternative perspective to study institutions that incorporated discourse analysis as inspired from Michel Foucault.

In contrast to institutional theory' dominant understanding, this study argued that to understand institutions and institutionalization we need to understand the subject position that the institutions promulgate. I (through discussions in Chapter Five, Six and Seven) argued that we can take an account of the characteristics of subject positions through the study of the Space, Text and Practice (facets of institutional discourse) of the institutions. The methodology proposed in this thesis conceptualizes institutions as "simultaneously material and ideal, system of signs and symbols, rational and transnational" (Friedland & Alford, 1991, p. 243) formed through its interactions in the inter-institutional system of society. Through the analysis of institution of academic finance from a Foucauldian perspective this thesis argued that locating the subject position of an institution allows us to understand both the constraining and enabling effects of the institution. Understanding the subject position of the institution provides us with a more compelling tool for the analysis of power relations within institutions. Power relations, as Foucault has shown (and followed in this thesis), are not only constraining as most of institutional theory literature assumes, but also have a strong productive dimension. Both these constraining and enabling effect of the power of an institution permit the institutionalized relations to perpetuate. While the constraining effect of an institutionalized phenomenon ensures its continuity, the enabling effect of power hides the relations from critical evaluation through self-formation that provides pleasure for the subject.

My analysis therefore suggests that to understand and offer an answer to the questions, *Why* and *How*, we need to look at the meticulous processes involving individualization, surveillance, examination and mobilization through which we come to know our present self (for example our identity as a finance lecturer or Muslim). For a comprehensive answer to the questions of *Why* and *How*, not only related to academic finance (explored in this thesis) but almost all of our *routine* interactions, it is necessary to

carry a detailed analysis of the history through which Space, Text and Practice of a discourse of an institution are made possible that renders the individual governable, examinable and provides him with the means for self-formation as well as mobilization of resources and efforts for the true cause.

In this sense, it may be argued that the Space, Text and Practice of the discourse of academic finance was made possible through the presence of discourse of scientism, the world-view of philanthropic foundations, access to and availability of large data, prestige of market, the overwhelming majority of economists in the business schools and through self-formation of the academics resulting from these discourses. The answer, for the finance lecturer to understand his action, lies in understanding the institutional history of the United States. The *present* nature of academic finance, in other words, is shaped by the interactions of institutional discourses of scienticism, philanthropic foundations (specifically Ford Foundation), economics and financialization of the economy of the United States.

The below provides a discussion of the main points of the thesis in terms of its implications for institutional theory (organizational institutionalism in particular) and Foucauldian discourse analysis. In addition, I will also be particularizing on how the thesis and the ideas discussed in here helped shaped my understanding of myself and my conduct.

8.1 Contribution to Organizational Institutionalism

Chapter Two of this thesis reviewed two of the dominant views within institutional theory related to organizational institutionalism (namely institutional work and institutional logics). While the two frameworks of institutional analysis have produced notable insights towards institutions, there are still many "black-boxed" processes that needs to be explored (see for example the discussions by Cloutier & Langley, 2013; Delbridge & Edwards, 2007;

Thornton et al., 2012; Willmott, 2011). In the following, I will elaborate on how the methodology proposed in the thesis can help open up some of these "black-boxed" processes.

Cloutier and Langley (2013) argue that despite the advancements organizational institutionalism still is unable to answer how organizational actors in a given situation deal with the dilemma produced by conflicting institutional logics that ensure the dominance of one over the other in the given context. Lawrence et al., (2011) described this as "somewhat lost in the development of an institutional perspective has been the lived experience of organizational actors, especially the connection between this lived experience and the institutions that structure and are structured by it" (p. 52). The methodology proposed via this thesis provides a tentative framework that can be utilized to understand the micro-processes of institutional discourse. By elaborating on the lived experience of the author in terms of his conduct under the discourse of academic finance and Islam, I argued that in a given situation an institutional discourse achieves dominance over the conflicting subject positions through its Space, Text and Practice facets. For example, inside the class room the dominance of academic finance is achieved by closing the class room's doors (entrance to the Space of academic finance) and thus disconnecting the subject's link with the alternative discourse of Islam (dislocating the Space of Islamic ideology). By individualizing the subject through its Space, the discourse of the institution of academic finance, renders the lecturer observable for the conduct which is to be examined in conformity with the Text of academic finance rather than the Text of Islam. The Practice of the subject in a given situation under the dominance of one institution over the other is constructed by the Space and Text facet of the dominating institutional discourse. As argued earlier in Chapter Four the actual conduct of the individual does not necessarily need to conform with the given Text rather it can deviate (conflicting discourse may be stronger than the promulgated subject position of the institutional discourse) thus opening up the possibility for change in institutional settings.

In essence the thesis argues that the dominance of the subject position of the institution of academic finance is achieved by individualizing the subject through the Space of the class-room, where the alternative discourse of Islamic subject position is separated. Thus to understand the micro-processes of a given institutional discourse's dominance, it is proposed that the institutional discourse be understood (and divided) into its Space, Text and Practice facets. Doing so opens the institution to be understood from the "lived experiences" of the subject (or actor as normally referred to in organizational institutionalism) that maintains, creates or disrupts the institutions.

Related to the micro-processes of institutionalization is the central paradox of institutional theory i.e. how institutions change when they themselves provide the guide to the actions. The Institutional logic perspective, in general, and the methodology proposed in this thesis, specifically, attempts to provide an answer to the question. The three facets perspective offers a means of understanding how institutions interact with their surroundings through their "symbolic and material" components.

The facets of discourse highlight the importance of Space, Text and Practice for the institutionalization process and how Texts translate into Practices. I argue, in the light of discussion presented above, that institutional theory should broaden its conception of institutionalization process and provide a detailed analysis of institutions from the three facets of its discourse. While institutions have been mostly approached from their "Practice" facet (see for example Barley & Tolbert, 1997; Czarniawska, 2009; Hambrick & Chen, 2008; Hargrave & Van De Ven, 2006; Lawrence & Phillips, 2004; Lounsbury, 2002, 2007, 2008; Lounsbury & Crumley, 2007; Lounsbury & Ventresca, 2003; MacKenzie, 2003, 2006, 2009; Millo & MacKenzie, 2009; Mutch et al., 2006) and occasionally from its "Text" facet (Fairclough, 1992; Peci et al., 2009; Phillips et al., 2004; Schmidt, 2008; Westwood & Clegg, 2003) they have rarely been approached from a "Space" facet (besides being considered in

terms of supra-institutional level that is institutional field or societal sector). Through a comprehensive analysis of the three facets of institutional discourse, identified in this thesis, it may be possible to locate the micro-processes of change and provide the language and vocabulary for further theorizations.

The third contribution to organizational institutionalism in particular and institutional theory in general is to provide a vocabulary to theory that describes power relations and interactions. As discussed in Chapter Four, one of the central foci of organizational institutionalism recently has been to include and broaden the scope of power analysis. By utilizing a Foucauldian discourse analytical framework, the thesis contributes by expanding this work. Foucault's analytics of power remain concerned with the historical formation of truth. As argued in this thesis, institutional discourse attracts its "taken-for-granted" status through its association with the truth. Thus, whenever institutional discourse encounters a situation where its association with the truth is challenged, we witness an attempt to disrupt the flow of institutional discourse. For example, we see this in critical analysis of financial knowledge and practice resulting from the sub-prime mortgage crises and global financial meltdown. Another example of the institutional disruptions is to regulate the institution of professional accountancy through legislations such as Sarbanes-Oxley (SOX) Act when the discourse of 'fiduciary duty" failed to be sufficient in early 2000s with the fall of corporate giants such as Enron, WorldCom and Tyco.

8.2 Contribution to Foucauldian Discourse Analysis

In terms of Foucauldian discourse analysis the thesis contributes towards the conceptualization of a Foucauldian version of discourse analysis in general and a method of

analysis for operationalizing a Foucauldian inspired archival research in particular. Below I summarize the key points.

One of the widely acknowledged aspects of Foucauldian discourse analysis is the absence of a concrete methodological framework specifically the lack of method of analysis (see for example the discussions by Kearins & Hooper, 2002; Prichard et al., 2004). This study offers an empirical framework that facilitates Foucauldian inspired historical analysis. It is argued that in order to search the archive and draw out the discontinued and marginalized knowledges, the researcher needs to understand the standard version of history. Doing so will help in establishing the "pragmatic stance" required for articulating a "history of present". Once the standard history is understood and the pragmatic stance established, the next part of a Foucauldian discourse analysis is to capture the "economies of power". This, I argue, can be captured by dividing the discourse into its facets i.e. Space, Text and Practice and searching the archive from the perspective outlined. The reason for dividing the discourse, as argued earlier in Chapter Four, is to understand the construction of the subject position. Through studying the standard history we can find the Space, Text and Practice *specificities* through which we come to know ourselves. Once we establish and study the standard history, the next step is to search the archive for the marginalized and localized knowledge. This is where the Space, Text and Practice guidelines can be utilized for establishing the discourses of the time.

8.3 Implications in Terms of my Conduct and Personal Research Agenda

I started this thesis with a specific interest in understanding my actions while working within the institutional discourse of academic finance. Coming mainly from the background

of quantitative finance and professional accountancy where numbers and statistics mattered. I, in the course of this thesis, was exposed to a different literature that was intriguing (and eye-opening) for me. The exposure enabled me to understand the world around me from a completely alternative perspective and helped me ask questions about power, identity and truth.

Since the completion of the thesis, I have returned to the role of a finance lecturer. One of the frequent questions that I encounter is “so what is so different now after you have done what you did”. This seems difficult to answer as I still engage in the same actions that I was prior to the research outlined in this thesis (i.e. teaching the same subjects and theories). However, within the seemingly similar actions, there exists a difference in terms of attitude and awareness to the power structure of academic finance. While prior to the exposure, I would disseminate the knowledge as true and final that had been proven by applying the most sophisticated statistical methods. Now when I teach the same theories, I remind myself and my students about the political nature of the theories and contested nature of the application of scientific methods. Translating this change in Foucauldian terms, I have become a source of resistance within the networked power of the institutional discourse of finance. Foucault argued that power and resistance resides within the same network. Depending upon the exposure, the subject works for one or the other. If the subject treats and considers the power/knowledge structure as truth, he works at enhancing the structure. If the subject, feels and considers the power/knowledge structure to be constraining his actions, he puts up a resistance. In other words, the difference in my personal life is to change the position I occupy within the power structure of academic finance. While prior to exposure I was working to enhancing the power structure of the field, post exposure I put up and build resistance to that power structure.

The second outcome in terms of personal implication of the research is to broaden my research activities. If institutions are indeed formed through the exposure of inter-institutional systems (as this thesis argues) then there is no such thing as pure Islamic Finance. Rather it is a combination of both Islamic and Western finance system. My intention in the future is to understand the institutionalization of Islamic Finance and (if required) re-politicize the domain of Islamic Finance.

Besides the research implications discussed in Section 8.1 and 8.2, future research implication of this thesis also includes refining and broadening the proposed methodology for studying institutionalization by incorporating the works of institutional theorists besides Michel Foucault. Also, as part of the personal research agenda for future, I intend to understand institutions and institutionalization from the *Quranic* and Islamic philosophy i.e. how does *kalam* and *falsafa* (see Winter, 2008 for a definition of the terms) view institutions and institutionalization. Doing so will not only bring the marginalized knowledge of Islamic philosophy back into mainstream organizational studies but also may provide an alternative explanation to the institutionalization process.

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