It is not often that you have an academic paper that, in the opinion of other academics, turns the world on its head. Sumantra Ghoshal's paper, "Bad Management Theories Are Destroying Good Management Practices" is one such paper. At the time he produced the article, which was published posthumously in the Academy of Management Learning and Education, 2005, Volume 4, No 1, 75-91 , Ghoshal was attached to the Advanced Institute of Management Research, UK, and the London Business School and was a well-established consultant, business strategist and teacher.

In his article, Ghoshal took an in-depth look at some management theories, in particular agency cost theory and transaction cost theory, that he suggested have had a negative impact on business executives and how they manage the modern business enterprise.

Ghoshal argued that management theories, and academic research designed on the basis of those theories, have had significant and negative influences on the practice of management. More importantly, business schools indoctrinate business students in those theories, which suggest that executives are expected to be selfish and self-serving. In this way, Business Schools are developing a cadre of managers who are devoid of any sense of moral responsibility and convinced that they should behave in a selfish and self-serving manner.

There is much more to Ghoshal's article than that, of course, but it was the assertion that business schools were responsible making contemporary business managers greedy, risk-taking and self-serving that caused the most discomfort. On serious reflection, you know that assertion cannot be true.

It is not every business executive that knows the finer points of agency cost theory or transaction cost theory, and these are by no means the more popular theories in business. Neither are they the most popular theories taught in business schools. If there is a defect in agency cost theory it cannot be that it recognizes that executives are greedy and self-serving. The documented behavior the CEO class over the last two or three decades stand as proof of that. It is the application of agency cost theory, not the analysis it affords, that is deficient. We have developed the practice of rewarding business executives when they do well, but not punishing them when they do badly. If there is no adverse consequence to bad behavior, why should business executives avoid it?

The emphasis on rewarding executives has been a very useful contribution of agency cost theory. After all, we do want executives concentrating on the principal objectives of the corporation; and most agree that the principal purpose of the corporation is increasing profit or, more correctly, increasing value. Rewarding executives for activities that increase the value of the corporation must be a great thing. On the other hand, the converse should be true. At the very least, executives should not be rewarded for reducing the value creation functions of the corporation. Some may even argue that executives should be punished when they recklessly destroy the very assets they were engaged to manage and improve.

The failure of agency cost theory over the last three decades has not been its emphasis on rewarding executives for the very things that make the corporation successful. With its focus on value creation, the theory has been a success. The failure of agency cost theory has been the disinclination of its proponents to concentrate on the other side of the equation: How do you effectively treat with executives who do the exact opposite, who reduce value rather than create it? I decidedly used the term disinclination, as distinct from inability, because it quite clear that agency cost theory has the capacity to assess executive behaviour that diverges from the corporation's primary function of value creation. It is just that agency cost theorists have not focused on issue. It is a little like giving instructions to drive a car by using only the accelerator and rewarding the driver when he achieves great speed but not punishing him when he is involved in an accident.