Science and Prescription: The Legacy of “A Behavioral Theory of the Firm”

Patrick D. Larkey
Carnegie Mellon University

Bertrand Russell noted that “Aristotle maintained that women have fewer teeth than men; although he was twice married, it never occurred to him to verify this statement by examining his wives' mouths.” (The Impact of Science on Society, 1952)

From the publication of Antoine Augustin Cournot’s *Recherches Into The Mathematical Principles of Wealth* in 1838 until the 1950s, there was much more interest in accepting and elaborating Cournot’s assumptions about producer behavior than in verifying those assumptions empirically. The producer was imbued with increasing powers of observation and analysis by the likes of Walras, Jevons, Edgeworth, and Marshall to support the increasingly complex and elegant theories of market behavior with producers (firms) as the behavioral centerpiece.

With evolution from the relatively simple sole proprietor – operator producing organizations of Cournot’s era to the complex public corporations and organized labor of the Twentieth Century, the behavioral assumptions grew increasingly untenable empirically. Berle and Means in *The Modern Corporation And Private Property* (1932) chronicled the evolution of producers and explored some of the implications of separating ownership and management. The seeds of empirical dissatisfaction with the theoretical view of producers as unitary actors behaving rationally were sown.

One strand of criticism driven by empirical dissatisfactions led to a search for a replacement for Cournot's profit maximization. The firm was still a unitary actor but doing something other than maximizing profits. A different objective implies different internal computations in pursuit of the objective but this was paid only passing attention.

The more fundamental attack was to observe and describe what business firms were actually doing, especially in their "decisionmaking." In Russell's terms, this was the equivalent of opening the mouth and counting the teeth.

The "Carnegie School" was born in the works of Herbert Simon and W. W. Cooper and others, most notably for the theme of the moment James G. March, in the 1940s and 1950s. March in The Business Firm as a Political Coalition (1963) significantly extended the foundation of Berle and Means for viewing the firm as something other than the unitary actor in neoclassical theory.

Richard M. Cyert and James G. March's A behavioral Theory of the Firm (1963) was, for the period, the culminating statement of a decades long program of research on business firms as complex organizations.

The purpose of this talk is to describe the distinctive contributions in A Behavioral Theory of the Firm, to trace the legacy of those contributions, and to speculate on what must come next to achieve useful predictive and prescriptive models of business firms.