strategy+business

Knowledge Review: Lessons for Business Schools

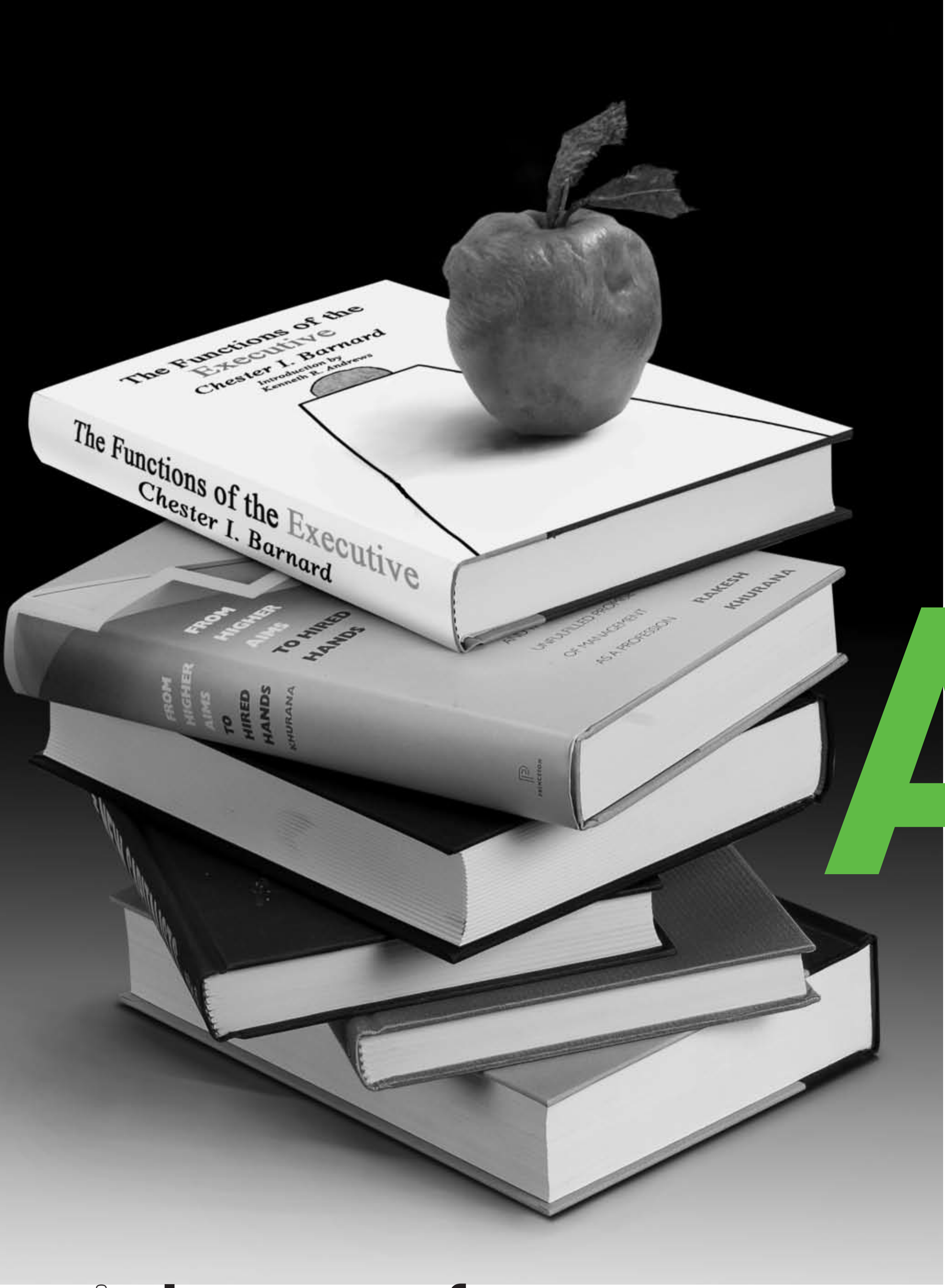
by Andrea Gabor

from strategy+business issue 50, Spring 2008

reprint number 08111

Reprint

by Andrea Gabor



Photograph by Rick Schwab

Lessons for Business Schools

New books and revisited history illuminate the irrelevance of today's MBA — and ways to make it compelling again.

Are MBA programs out of sync with the needs of business in the 21st century? Have they failed to keep pace with global and technological change? Are they too theoretical and removed from the day-to-day challenges faced by managers and entrepreneurs? And do they encourage the silo-ing of such functions as finance and marketing rather than instilling in their students a multidisciplinary view? These questions are taking on greater importance as the business environment becomes ever more globalized and competitive. "This is one of those punctuated-equilibrium moments," says Joel Podolny, dean of Yale's School of Management. "There's lots of experimentation, and we have to adopt new models to meet 21st-century challenges."

Skepticism about the purpose of U.S. business schools has mounted since early in the last century, when institutional economist Thorstein Veblen published *The Higher Learning in America: A Memorandum on the Conduct of Universities by Business Men* in 1918. In one scathing chapter on vocational training, Veblen inveighed

Andrea Gabor
(aagabor@aol.com) is the author of several books, including *The Capitalist Philosophers: The Geniuses of Modern Business — Their Lives, Times, and Ideas* (Three Rivers Press, 2002). She is a professor of business journalism at Baruch College at the City University of New York.

against the incursion of "schools of commerce" into the university, noting that whereas other professional training academies, such as medical schools, serve the needs of the "community at large," business schools focus on "a facile command of the ways and means of private gain." Veblen's criticism foreshadowed debates about the proper scope of business education as well as the role of norms and values in business education that carry on to this day.

Since Veblen, efforts to establish and efforts to reform business schools have generally coincided with periods of social upheaval. Veblen's critique, for example, was a reaction to the social and economic disruptions brought on by industrialization, and followed closely on the decision of Joseph Wharton, an industrialist and devout Quaker, to found an eponymous business school — the nation's first — as one way to address what he saw as the "social problems incident to our civilization." In the 1920s, fear of communism and the continuing disruptions of capitalism inspired the first organized effort among deans of several of the nation's fledgling business schools — an effort led by Harvard's Wallace B. Donham — to define their mission in social terms, and to distinguish themselves as professional schools. The Great Depression inspired a new round of soul-searching as business school deans identified the schools' own "uncritical embrace" of laissez-faire economics as a cause of the economic crisis.

The most important work to come out of these early reform efforts was Chester I. Barnard's *The Functions of the Executive.* Published in 1938, the book builds on a series of Harvard Business School (HBS) lectures by Barnard, whose career alternated between leadership positions in government service and at AT&T. Although it is not about business education per se, *The Functions of the Executive* was published with the encouragement of Harvard's Donham, who saw it as one answer to growing criticism of the role of business in society. Barnard's book remains an influential treatise on leadership, and introduced concepts that today look prophetic: Values and ideas often flourish in the informal organization, rather than in the hierarchy; business leaders must balance intuition with reason; the development and training of employees is a paramount responsibility of management; pay-for-performance schemes can be dangerous to the health of a company; and management's authority rests in its ability to persuade, rather than to command.

Why Business School?

The postwar years saw a surge in demand for business school education. By 1950, enrollment in graduate business programs had more than tripled since 1939, to 72,000. (Today more than 130,000 people graduate with MBAs each year.) However, the proliferation of new business schools led to a deterioration in education standards and research quality. Most important, business schools still did not have a clear idea of their mission.

In a 1950 *Fortune* article, "The Graduate Business School," management theorist Peter Drucker wrote that although these schools were more popular than ever, they did not quite know "what their job is or how to accomplish it." Most schools, he pointed out, embraced Donham's dictum that business schools have to "provide professional leadership in the modern enterprise and modern industrial society." But there was no agreement

Administration and policy courses emphasized routines — that is, bureaucracy — rather than the risk taking necessary for innovation.

on what the "function" — job, goals, standards — of someone in business should be, argued Drucker. Nor did many businesspeople, who were likely to see profit making as their key mission, agree with Donham's call for business to contribute to the greater good of the economy and society. Drucker also saw three practical problems in defining the mission of business schools: (1) Business techniques could be taught to almost anyone, but the qualities needed for true leadership were difficult to convey to the typical MBA student, who at that time was a recent college graduate with little or no work experience; (2) courses on administration and policy emphasized routines — that is, bureaucracy — rather than the risk taking necessary for innovation; and (3) business schools fostered a "crown prince" mentality among their graduates, including an aversion to working one's way up through the ranks of an organization.

Soon after the publication of Drucker's article, the Carnegie Corporation of New York and the Ford Foundation embraced the cause of business school reform and financed two separate studies of business education. Neither of the books that emerged from those studies — Frank Cook Pierson's *The Education of American Businessmen: A Study of University-College Programs in Business Administration* (1959), funded by Carnegie, and Robert A. Gordon and James E. Howell's *Higher Education for Business* (1959), funded by Ford — is readily available. But a useful summary of many of their ideas was published in 1994 in *The Beginnings of Graduate Management Education in the United States* by the Graduate Management Admission Council.

The principles on which the two studies agreed still resonate today. First, they argued that the trend toward specialized, increasingly vocational courses would have to give way to a more integrated approach that would take in all business operations and functions from a broad managerial viewpoint and emphasize "analytical rigor and problem-solving ability." Educators generally accepted the need for such integration, but Gordon and Howell noted that less than one-third of the business schools they surveyed required a course on business policy, which was seen as a key vehicle for achieving an integrated perspective. Because a managerial perspective would require knowledge of the world and the ability to communicate, both studies emphasized the importance of a liberal arts undergraduate education. They also called for more course work on the social context of business, including the evolving legal, political, social, economic, and intellectual environments. Finally, the studies recognized that the scientific and theoretical foundations of business needed shoring up, a goal that would require increasing the percentage of faculty with Ph.D.s, placing a stronger emphasis on research, and expanding the training of faculty and students in both behavioral sciences and quantitative methods. The latter was seen as the key to providing a foundation for more rational decision making.

The Gordon and Howell report, while extolling the role of new quantitative methods, was sympathetic to a general management approach to business school education and the case-study method that had been pioneered by Harvard. The Pierson report, by contrast, clearly saw the science-grounded curriculum exemplified by the Graduate School of Industrial Administration (GSIA) at Carnegie

By embracing the primacy of shareholder value, says Rakesh Khurana, business schools have abandoned their mission.

Mellon University as a model of business school education. Pierson's suggested curriculum gave the greatest weight to quantitative methods, which included accounting, simulation, and statistics in decision making — all GSIA requirements. At GSIA, even the study of organizational behavior focused on analytical tools, rather than traditional descriptive methods. "Fairly elaborate approaches to mathematical programming" would make it possible to develop a more analytical approach to choosing the variables on which managers would base decisions, thus diminishing the role of the "hunch" and even "informed judgment," predicted the report.

GSIA was emblematic of the ambitious goals of the day, as well as of what went wrong with the reform efforts. One thing GSIA did not focus on was the development of managers. Henry Mintzberg begins his 2004 book, *Managers, Not MBAs: A Hard Look at the Soft Practice of Managing and Management Development,* with a discussion of GSIA, noting that the school never realized the promise of its academic talent and research agenda because it failed to integrate its research into the needs of real-life managers and businesses. Of all the critiques of MBA education, Mintzberg's indictment is the most expansive. Mintzberg attacks what MBA programs teach (functions in silos with no overarching framework), how they teach it (as analysis and decision making, divorced from context and experience), and whom they teach (largely inexperienced young people who do not have the wisdom, born of experience, to give meaning to their studies).

Mintzberg, a longtime management professor at Montreal's McGill University and a founder of the International Masters Program in Practicing Management, is especially critical of the functional bias that dominates many business schools. But he argues that even Harvard's case method, while resisting the most abstract theoretical extremes of GSIA, depends too heavily on analysis and talk, and not enough on context, experimentation, and the iterative learning that is essential for successful implementation. The cases students study, sometimes dozens of them in quick succession, are twice removed from the actual business setting. Mintzberg complains that the emphasis on data analysis without "the tacit knowledge of the situation" leads to facile decision making. He takes aim at such popular HBS courses as Michael Porter's Competition and Strategy for being excessively outward-focused and devoid of a unified view of the organization and its capabilities and idiosyncrasies during the strategy-setting process. Mintzberg goes further than most critics by suggesting that a graduate program in business education is wasted on anyone but a practicing manager.

What Is Management?

In 1980, Robert H. Hayes and William J. Abernathy, in their seminal *Harvard Business Review* article, "Managing Our Way to Economic Decline," charged: "What has developed, in the business community as in academia, is a preoccupation with a false and shallow concept of the professional manager, a 'pseudo professional' really — an individual having no special expertise in any particular industry or technology who nevertheless can step into an unfamiliar company and run it successfully through strict application of financial controls, portfolio concepts, and a market-driven strategy."

Business schools reacted by

beefing up their offerings on international subjects, which exposed students to new markets and competitors, and introducing courses on quality, which were intended to plug curricular gaps in operations. Columbia University set up a center for operations in 1980 with a raft of executive seminars and guest speakers from industry. Harvard Business School began to require an operations management course in the first semester. There was even talk of reshuffling the offices of Harvard professors to promote communication among specialties.

But these reforms were already being overtaken by a powerful new idea. Beginning in 1976, a group of finance economists published what would become a series of papers on the so-called efficient market hypothesis, which in turn gave rise to agency theory, which argued that markets can align the interests of owners and managers of public companies. The theory provided the "unified approach to organizations and corporate governance" and the conceptual framework that had so long eluded business schools, according to Rakesh Khurana in his 2007 book, *From Higher Aims to Hired Hands: The Social Transformation of American Business Schools and the Unfulfilled Promise of Management as a Profession.* But by redefining managers as self-interested agents, rather than as stewards, the theory undermined the authority and legitimacy of management, as well as the professional goals that business schools had been working toward for close to a century, argues Khurana. He frames his devastating critique — that MBA programs have degenerated into a combination of credentialing institutions and exclusive social clubs — in the historical context of the business school's long struggle for legitimacy and professional identity.

In his account of the history and social mission of business schools, Khurana, an associate professor at HBS, calls for a return to the social and educational aspirations first articulated by Wallace Donham and Chester Barnard. He charges that business schools, by embracing the strictures of investor capitalism and the primacy of maximizing shareholder value, have abandoned their professional mission. Khurana places the blame for that development squarely at the feet of those who promoted agency theory. A reflection of the growing power of economists in business schools, agency theory served to justify both the latest buyout wave and the proliferation of stock option grants as employee incentives, and shifted the focus of education from training general managers to training financiers and professional investors.

Students flocked to the fields of finance and consulting, which led to the most lucrative jobs, and away from general management, and Khurana shows how the now ubiquitous rankings of business schools also exerted a kind of perverse market logic. By measuring schools in part on such nonacademic criteria as the number of job offers graduates received and their starting salaries, the rankings fueled the race for high earnings and reinforced the bottom-line raison d'etre of a business education. And Khurana demonstrates how the language of business — rather than education — came to dominate the thinking of educators, who now refer to students as "customers," curricula as "value propositions," and the MBA degree itself as "a product." Gone is even the pretense of a larger social or intellectual mission.

Back to Practicality

With its reductionist outlook — all human motivation boils down to self-interest — agency theory is also out of step with a new recognition of the complexity and context of business organizations. Another wave of books and articles takes aim at many of the popular myths and ideologies that business school research helps perpetuate. These works call for renewing the practical relevance of management research. And they argue for developing a better understanding of the nuances inherent in the best management practices, which often reside at the intersection of art and science.

In a 2005 *Harvard Business Review* article, "How Business Schools Lost Their Way," Warren Bennis and James O'Toole, both professors at the University of Southern California, charge that nearly half a century of "physics envy," in which business schools have increasingly stressed scientific rigor in academic research, has led to a body of knowledge that lacks practical relevance for businesses. It is time, the authors suggest, to pursue a more multifaceted approach to research that balances abstract scientific inquiry with empirical research based on real-world experience, observation, and judgment.

Phil Rosenzweig, in *The Halo Effect…and the Eight Other Business Delusions That Deceive Managers* (2007), also trains his eye on the failures of much business school research, offering a thoughtful and compelling analysis of why some of the most heralded research on business performance, much of it written by prominent professors who rely on empirical research, is highly flawed and rarely predictive of long-term company performance. Rosenzweig, a professor of management at IMD business school in Lausanne, Switzerland, uses the myth of the CEO savior to demonstrate how both journalistic and scholarly research is often influenced by faulty assumptions. Most research, he argues, is simplistic in that it tries to isolate a single variable — such as the impact of CEO tenure on corporate performance — when, in fact, other factors, including market position, technology, and labor contracts, can play decisive roles. A related research problem involves oversimplifying cause-and-effect relationships by overemphasizing one dominant phenomenon; this is known as the halo effect.

Faulty research and abundant reliance on the halo effect explain why the companies singled out by Tom Peters and Robert Waterman in *In Search of Excellence* and Jim Collins and Jerry Porras in *Built to Last* lost their luster when the business climate changed. In what Rosenzweig describes as the "delusion of connecting the winning dots," Peters and Waterman made the mistake of studying a sample made up entirely of successful companies. The only way to discover what makes a company excellent, Rosenzweig points out, is to compare it to companies that are not excellent. Collins and Porras managed to avoid that mistake when they conducted the research for their book, an effort that involved examining 200 companies and reading more than 3,000 documents, including case studies and journalistic accounts. But they fell victim to the "delusion of rigorous research," says Rosenzweig, who explains that many of the sources used by the authors, such as press accounts, had already been tainted by the halo effect. Rosenzweig concludes that the research behind a number of popular business books is "deeply flawed as science," yet those books provide inspiration and comfort for readers. He warns that

Business School Resources

Works mentioned in this review.

Chester I. Barnard, *The Functions of the Executive* (Harvard University Press, 1938), 350 pages.

Warren Bennis and James O'Toole, "How Business Schools Lost Their Way," *Harvard Business Review,* April/May 2005.

Peter F. Drucker, "The Graduate Business School," *Fortune,* August 1950.

Robert Gleeson and Steven Schlossman, *The Beginnings of Graduate Management Education in the United States* (Graduate Management Admission Council, 1994).

Robert A. Gordon and James E. Howell, *Higher Education for Business* (Columbia University Press, 1959), 492 pages.

Gary Hamel (with Bill Breen), *The Future of Management* (Harvard Business School Press, 2007), 288 pages.

Robert H. Hayes and William J. Abernathy, "Managing Our Way to Economic Decline," *Harvard Business Review,* July/August 1980.

Rakesh Khurana, *From Higher Aims to Hired Hands: The Social Transformation of American Business Schools and the Unfulfilled Promise of Management as a Profession* (Princeton University Press, 2007), 542 pages.

Henry Mintzberg, *Managers, Not MBAs: A Hard Look at the Soft Practice of Managing and Management Development* (Berrett-Koehler, 2004), 464 pages.

Frank Cook Pierson, *The Education of American Businessmen: A Study of University-College Programs in Business Administration* (McGraw-Hill, 1959), 740 pages.

Phil Rosenzweig, *The Halo Effect...and the Eight Other Business Delusions That Deceive Managers* (Free Press, 2007), 256 pages.

Thorstein Veblen, *The Higher Learning in America: A Memorandum on the Conduct of Universities by Business Men* (B.W. Huebsch, 1918), 294 pages.

Jim Collins and Jerry Porras fell victim to the "delusion of rigorous research," relying instead on accounts tainted by the halo effect.

these works often "focus attention on the wrong priorities" and have the potential to lead managers astray. Business, he notes, is not nearly as amenable to "engineering" as managers and researchers would like to think.

Strategy guru Gary Hamel comes at the question of leadership and business success from a different angle. In his 2007 book, *The Future of Management,* he argues that if 21st-century leaders are to adapt to the torrid pace of change in today's market, their challenge is to reinvent the practice of management itself. (The book is reviewed in "Books in Brief," by David K. Hurst, *s+b*, Spring 2008.) Industry must change as dramatically in the coming decades as it did 100 years ago, he says, and managers must develop systematic ways to examine — and confront — "legacy beliefs." In particular, they have to free themselves from a paradigm that "places the pursuit of efficiency ahead of every other goal," he writes.

Hamel says companies are capable of such change, and he cites the way that DuPont revolutionized capital allocation and Toyota harnessed employee know-how to drive continuous improvement. Such companies as Gore-Tex and Google are evolving new management forms and ideas to "build organizations that are capable of continual, trauma-free renewal." But, he says, it is equally telling that many other companies have had a hard time emulating these examples. One reason, Hamel suggests, is that the innovators challenge shibboleths about hierarchy and efficiency that their would-be imitators are reluctant to abandon.

Few of the managerial breakthroughs cited by Hamel grew out of business school research. And Hamel writes almost nothing about business education. But his book does suggest some of the changes that business schools will have to make in order to regain their relevance. For example, amplifying creativity throughout the organization is a prime goal of today's most innovative companies. To reach it, they tend to organize work around small, peer-driven work units, often with no identifiable supervisor, and engage in constant experimentation and feedback. Leaders tend to emerge naturally from these groups. In contrast to traditional companies with their constant pursuit of efficiency, today's innovators attempt to build slack into their systems because, as Hamel notes, "if you wring *all* the slack out of a company, you'll wring out all of the innovation as well." Thus, for example, Google, which aims to launch 10 to 12 new service offerings or enhancements each quarter, attributes fully one-half of its new product launches to its employees' "dabble time."

Traditional companies and business schools treat leadership, creativity, and entrepreneurialism as rare attributes possessed by a talented few. Now a number of companies believe they must nurture such traits across a wide range of employees. The challenge for business schools is to understand the new structures and philosophies of these "lattice" organizations, and to train students to thrive in them. Equally important, during an era characterized by rapid change and increasing global interdependence, business schools are uniquely positioned to help companies redefine what constitutes both a "societal good" and "good business." Doing so, many critics would agree, would be an important step in the rehabilitation of the American business school. +

Reprint No. 08111

strategy+business magazine
is published by Booz Allen Hamilton.
To subscribe, visit www.strategy-business.com
or call 1-877-829-9108.