

Masters and misgivings: A coveted qualification turns 100 still seeking to prove its worth

Della Bradshaw

It was on April 8 1908 that 33 aspiring managers gathered in Boston, Massachusetts, to begin a new type of degree, a masters in business administration. Eight – all men – finished the two-year course and became the Harvard MBA class of 1910. The other 25 may have lived to regret that they failed to join one of the business world's most exclusive clubs.

The Harvard MBA has gone on to become one of the most coveted business qualifications in the world. It is the calling card for those who want to join the boards of corporate America – and the most prized qualification for Indian bachelors seeking a suitable bride.

The course pioneered by Harvard (see below) is now one of the world's most prominent educational brands. Around 500,000 students will graduate with an MBA globally this year and demand from students for management education continues to grow. The latest figures on the GMAT, the entry test for quality business schools, shows a 7 per cent increase in test-takers in the US over last year and a rise of nearly 22 per cent elsewhere in the world.

China, which had no MBA programmes a decade ago, now graduates around 30,000 students from local courses each year. India, with more than 1,000 authorised business schools, has more MBA programmes than the US.

Strip away the hype surrounding the MBA, though, and it is difficult to come up with hard evidence to prove that 100 years of management education, and the MBA degree in particular, have been beneficial to business or society. Indeed, even among its proponents, many are questioning whether business schools teach the right things, in the right way, to the right people.

Ironically, business schools that have been swift to measure, analyse and assess every field from pharmaceuticals to the performing arts have been slow in developing metrics for their own industry. When asked to name the managerial advances that have come out of business schools, there are vague references to financial models used on Wall Street. The one hard example of such a model is the Black-Scholes option pricing formula developed in 1973 by Fischer Black, who at various times worked at Harvard, Chicago and MIT Sloan, and Myron Scholes, who worked at Chicago, MIT and Stanford.

There is a case to be made for the proposition that the US owes its economic success in part to the high number of business students who graduate from American universities each year, argues Roger Martin, dean at the Rotman school at the University of Toronto: "America has got the most successful businesses in the world and is the most prosperous country in the world. You have to ask the question: 'What is special?'"

In research for Canada's Institute for Competitiveness & Prosperity, he points out that more than 21 per cent of all university students in the US graduate with a business degree – undergraduate, masters or doctoral. This is almost twice the percentage of Canada. "It drives me crazy that we [Canada] keep investing in science and engineering."

Moreover, at least 30 of the top 100 global companies* are run by bosses with an MBA, from Jeffrey Immelt at General Electric and Vikram Pandit at Citigroup to Jean-Pierre Garnier at GlaxoSmithKline and Nobuo Kuroyanagi at Mitsubishi UFJ Financial.

Business schools can also claim credit for creating wealth through business start-ups, says Arnoud De Meyer, director of the Judge Business School at the University of Cambridge in the UK. Some 40 per cent of graduates from the top business schools are running successful entrepreneurial ventures 10 years after graduation, he says.

Ellen Miller, a managing director at Lehman Brothers, argues that MBA degrees have been a tool for the democratisation of business, opening access to top companies for managers of

merit. Captains of industry used to come from the upper echelons of society; then “the MBA became a badge of respectability”.

What is undoubtedly true is that for those who study for an MBA at a top business school, the financial rewards can be substantial. Recruitment for them looks to be relatively robust this year in spite of fears of an impending recession, with MBA graduates – typically 28- or 29-year-olds – taking up jobs in the finance sector earning salaries of between \$100,000 and \$120,000 complete with sign-on and year-end bonuses.

More significantly, the MBA gives people the opportunity to switch careers, according to Paul Danos, long-term dean of the Tuck school at the ivy-league Dartmouth College. “What is great about the MBA from the student’s point of view is that it lets you change your life.” Students enter as information technology specialists, engineers or soldiers and leave as management consultants, bankers and entrepreneurs.

It is a transformation appreciated by MBA students and alumni. “If you’ve never been in business before, as I hadn’t been, it opens up this mysterious world and language,” says Philip Delves Broughton, who graduated from Harvard in 2006. “The MBA provides a decoder to how business people talk and think.”

Neil Courtis, who graduated from Insead in December 2007, uses the analogy of a car. In their previous jobs, incoming students had concentrated on one aspect of the business – the windscreen wipers or the tyres. An MBA opens the bonnet and shows how the whole engine fits together. His one criticism is that the MBA does not teach implementation. “You don’t come out as a mechanic.”

Mr Courtis believes there are things an MBA cannot teach. “You can teach analysis but you can’t teach judgment,” he says. An MBA, he adds, can give “a sheen of knowledge – it’s a bullshitter’s paradise”. Such scepticism can be seen in the acronym’s many unofficial elaborations: Mediocre But Arrogant, Master Of Bristless Axioms and the like.

That said, for corporate recruiters the business school selection process acts as a filter to isolate the top-notch brains. It is a formula that does seem to work for firms such as Bain & Co, the management consultancy. “Business schools have been able to attract [people from] the top of the class and develop them,” says Bill Neuenfeldt, a partner with Bain & Co and head of its global schools recruiting.

Though management consultancies and investment banks have been the traditional recruiters of MBAs, an increasing number of industrial and consumer companies have joined them. One of the biggest is Google, says Alison Parrin, manager of MBA recruitment for the internet company’s Europe, Middle East and African region. “Although they [MBA graduates] are brought in for very specific roles, we bring people in who can be flexible in the longer term.”

MBA recruitment has become embedded in Google’s culture and employees with MBAs are called upon to take part in business school recruitment drives to encourage potential “Nooglers” (new Google employees) to join the company. “It is absolutely part of the job description,” says Ms Parrin.

Given the obvious popularity of the MBA, it may seem strange that business schools, particularly in the US, are facing a crisis of confidence about what they teach. One of the biggest issues is surprisingly similar to the dilemma faced by Harvard 100 years ago: that is, the extent to which business schools should teach the practical and research the theoretical.

On that first programme, the 33 aspiring managers studied just three required courses, all designed to give them hands-on skills: the principles of accounting, commercial contracts and the US economy.

This so-called trade school approach, with its emphasis on practical skills, was popular in the US until the 1950s, when a shift began towards making business courses more akin to social

sciences such as economics or psychology. This paved the way for the sort of peer-reviewed academic research published on Monday. Some argue that the process has gone too far, with business schools publishing research on abstruse subjects such as “optimal information asymmetry” or “Baynesian methods in strategy” that few practising managers would ever read.

The past five years have seen business professors such as Jeffrey Pfeffer at Stanford and Henry Mintzberg from McGill bemoan business schools’ loss of touch with business. This is changing, says Glenn Hubbard, dean at Columbia Business School in New York and former chair of US President George W. Bush’s Council of Economic Advisers. “Now I think we’ve seen a very healthy swing of the pendulum back – without losing academic rigour. We step back and ask: ‘What are the big issues that business has to grapple with?’”

US business schools will face further such issues as schools in Europe and Asia catch up. While in the US there is just one postgraduate business degree – the MBA – schools in Europe and Asia are developing a range of different qualifications. This fragmentation means an employer recruiting in Europe can choose among undergraduates, masters-level students or those with a post-experience MBA. “I think it gives us a lot of flexibility,” says Ms Miller at Lehman.

But this is not the biggest problem business schools have to wrestle with. Students entering MBA programmes are increasingly members of the internet generation, who access information, network and make judgments in different ways to their predecessors, says Joel Podolny, dean of the Yale School of Management. “The pedagogy of business education is going to have to change even as we try to address new topics such as globalisation and sustainability. The new generation have grown up to process knowledge differently. They would rather read 20 one-page snippets than one 20-page article, even if the information is the same.”

He says the ability to deal with this will determine the success or failure of business schools in the future. “The schools that work this out will have a real impact.”

Fonte: Financial Times, p. 6, April, 7. 2008.