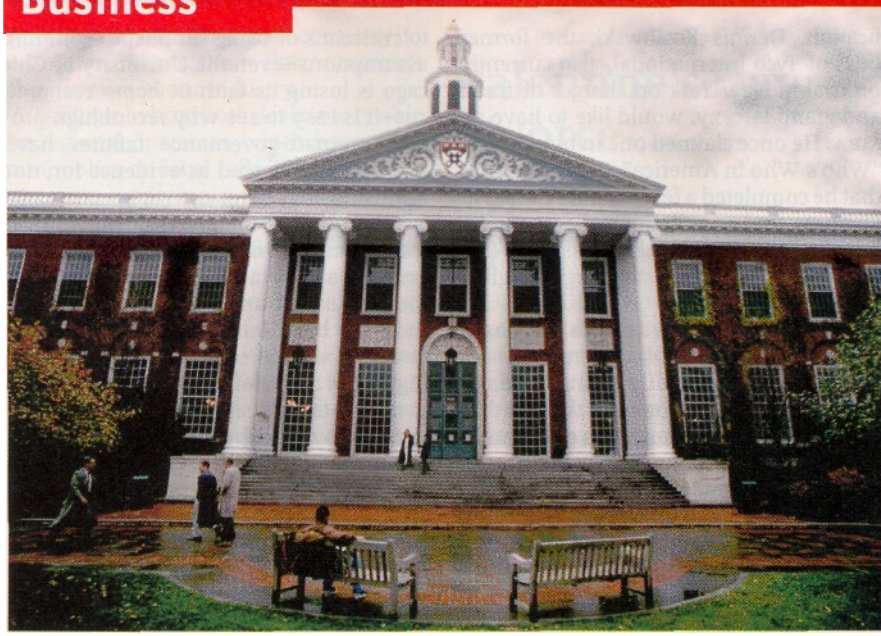

Also in this section

Business schools

Bad for business?

Business schools stand accused of being responsible for much that is wrong with corporate management today

THIS is the time of year when MBA students run not from classroom to classroom but from interview to interview as they try to get the high-paying job that they expect their qualification to deliver. It seems that the demand for MBAS is now strong again, after four decidedly weak years. "The big eaters of MBA talent have regained their hiring appetite," says Ken Keeley, director of career opportunities at Carnegie Mellon's Tepper School of Business in Pittsburgh. At New York's Stern School, close to Wall Street, the number of jobs offered to this year's MBA class by the beginning of this month was double that at the same stage in 2004. Better still, average starting salaries in investment banking for Stern graduates were—at $95,000—up by $10,000 from a year ago.

But just as the market value of an MBA is reviving, its academic credibility is being attacked. In a forthcoming article to be published posthumously in *Academy of Management Learning* & Education, Sumantra Ghoshal argues that many of the "worst excesses of recent management practices have their roots in a set of ideas that have emerged from business-school academics over the last 30 years."

Mr Ghoshal was just such an academic, a professor at London Business School until he died 11 months ago at the age of 55. He believed that the desire of business schools to make the study of business a science, "a kind of physics", has led them increasingly to base their management theories on some of the more dismal assumptions and techniques developed by economists, particularly by the "Chicago School" and its intellectual leader, Milton Friedman. These include supposedly simplistic models of individual human behaviour (rational, self-interested, utility-maximising homo economicus) and of corporate behaviour (the notion that the goal of a firm should be to maximise shareholder value). These assumptions, though in Mr Ghoshal's view badly flawed, were simple enough to allow business-school academics to develop grand theories of management supported by elegant mathematical models and empirical analysis that appeared scientific, and thus earned their subject academic respectability, but were, in fact, a pretence of knowledge where there was none.

Fight fiercely, Harvard

Mr Ghoshal's article is particularly critical of the management theories associated with two prominent Harvard Business School professors: Michael Jensen, whose development of agency theory has encouraged business schools to teach "our students that managers cannot be trusted to do their jobs"; and Michael Porter, whose "five forces framework" has been presented to "suggest that companies must compete not only with their competitors but also with their suppliers, customers, employees and regulators."

A particularly worrying feature of these theories, says Mr Ghoshal, is that they have no "role for human intentionality or choice". And not only do such theories falsely claim to be scientific, teaching them can make them self-fulfilling. Business-school students learn that managers cannot be trusted—so when they become managers their behaviour is of the untrustworthy sort. Students have been freed "from any sense of moral responsibility". Hence scandals such as those at Enron, where business-school educated executives were prominent. And hence, perhaps, future Enrons yet to be created by this year's much-in-demand crop of MBAS.

Mr Ghoshal is not the only heavyweight academic to have come out with such a *mea culpa*, Jeffrey Pfeffer of Stanford University's Graduate School of Business, writes in the same journal that Mr Ghoshal "if anything understates the potential downside to the inculcation and acceptance of economic language, assumptions and theory." In support he refers to a study in 2000 which found that a link between corporate size and the number of citations for violating health and safety regulations became stronger as the percentage of a firm's top managers holding an MBA rose. In a book published last year, "Managers not MBAS", Henry Mintzberg, a Canadian business professor and a long-time critic of the degree, wrote that "the MBA trains the wrong people in the wrong ways with the wrong consequences".

Not surprisingly, many business schools reject these claims. While Enron was well stuffed with MBAS and led by Jeffrey Skilling, a man who liked it to be known that he was near the top of his Harvard Business School MBA class, the clutch of top executives currently on trial for corporate corruption are notable for their lack

of business-school qualifications. Richard Scrushy started life as a humble hospital worker. His trial on 58 charges of fraud involving billions of dollars when he was boss of HealthSouth, a health-care provider, is under way in Birmingham, Alabama. "He didn't have a CPA accounting degree or an MBA in business administration," said his lawyer recently in mitigation. The jury has heard a tape on which Mr Scrushy says to some of his staff: "I'm gonna talk, talk to y'all just real. This conversation did not take place. OK?" followed by: "They ain't got nothing. They didn't ask me nothing about the numbers." This is not the sort of strategy taught even in the best business schools.

Bernard Ebbers, the former chief executive of WorldCom, who is currently on trial in Manhattan on nine charges of massive fraud and is often described as "an ex-milkman", has no formal business qualification. Dennis Kozlowski, the former boss of Tyco International, also currently on trial in New York on charges of fraud and grand larceny, would like to have an MBA. He once claimed one in his entry in "Who's Who in America". But the truth is that he completed a few evening classes in business studies at Rivier College, a little-known Catholic school in Nashua, New Hampshire. He did not stay long enough to collect a qualification.

It is also hard to square Mr Ghoshal's claim that recent scandals were the result of managers too eagerly trying to maximise shareholder value with the fact that shareholders have been some of the main victims of their actions. Nor for that matter is it true that everything taught in business schools is presented as scientific: Harvard's method of discussing corporate case studies, for example, is anything but scientific. And while there is some validity to criticisms of using simplistic economic assumptions—even the University of Chicago is losing its faith in homo economicus-it is easy to see why recent high-profile corporate-governance failures have mostly been viewed as evidence for, not against, agency theory.

Yet judged by their recent behaviour, at least, many business schools believe there is some validity to the criticisms levelled at them. Harvard and Stanford are among those to have introduced ethics classes into their MBA courses. At Tuck, a top-ranking school at Dartmouth College, MBA students are taught case studies of moral dilemmas by members of seven different faculties, including marketing, strategy and finance. In 2003, the Association to Advance Collegiate Schools of Business (AACSB), a standards-setting body which has all the top business schools among its 495 members, introduced new rules on teaching ethics in their curriculum. Some business-school academics want the AACSB to go further and make teaching a course on business ethics compulsory for accredited institutions.

Certainly, such efforts in the classroom may help business schools to repel the current attack on their reputation. This year's class of MBAS is coming from more ethics-conscious schools and, indeed, is being hired by more ethics-conscious businesses than any of its predecessors. But will that be enough to make firms, or their managers, more ethical? ■