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## **The Business Education Debate**

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The educational challenge that graduate schools of business face is this: we have two years to prepare young college graduates (typically with some meaningful work experience) for a career that is likely to last thirty five years or so. Think for a minute about what the world was like thirty-five years ago. Large parts of the world economy were governed by socialist rather than market based principles. Trade was highly restricted and the exchange rates of major trading partners were fixed. Inflation was endemic in all but a few economies. Most of the markets that are now used for risk management did not exist. The personal computer and the internet were not even a gleam in someone's eye. The most popular word processing tool was a pencil and the frontier technology was the IBM Selectric typewriter. Now think about the world of business as it exists today and ask what changes we can anticipate over the next thirty five years given that the pace of change has, if anything, increased. Given this challenge, what skills and what habits of thought should business education provide?

Business education as it now exists is under attack. Recent articles in the business and mainstream press assert that the education offered at even the top research-driven business schools is inadequate. B-schools fail to impart useful skills, don't prepare students to be leaders and don't instill ethical standards in graduates. According to this view, business schools are failing because they are too focused on scientific research, and not enough on the so called "real world" skills and applications that business school graduates need to succeed in today's complex marketplace. They appear to view research and teaching, and more importantly, research and learning, as completely unconnected, if not antithetical, activities.

In an impassioned critique appearing in the *Harvard Business Review*, Warren G. Bennis and James O'Toole argue that the major culprit for this so-called failure is the very model of academic excellence currently embraced by most leading business schools. This model is based on a view that business education should deliver a long-term educational foundation rather than a set of short-term vocational skills and that such a foundation is most effectively delivered by research-oriented faculty.

The critics believe that research faculty just can't, don't, or won't, understand current business practice. Bennis and O'Toole report with breathless amazement that there are

tenured professors of management who have never set foot inside a real business except as customers.

Jeffrey Garten, the past dean of the Yale School of Management in a recent interview in *The New York Times* argues, as do Bennis and O'Toole, that B-school education should be more "clinical" and that B-school faculty should be required to have more practical experience in business.

But I am convinced that the critics of business school education have it exactly backwards: the problem with business education is that the pressure to give in to a vocational focus means that students do not acquire the analytical and intellectual training that they need to inform a leadership career that will encompass far more than any purely vocational "how to" approach can address.

Business Schools have a scholarly mission. Without it, business education has no place in a research university. The mission is to understand markets, firms, and prices as well as to develop new strategies and discourses for understanding how they work, how they interact, how they impact society. We stand aside from the markets because we analyze them, develop tools to understand them, and, when necessary, stand in judgment of them.

Business schools, as institutions of higher education, are a public trust. They have a fiduciary duty to the truth, not to the bottom line. They are entrusted by society with the culture of a profession, and have a responsibility to reinvigorate it through the *education* of each new generation. Therefore their goal must be to provide a meaningful and serious intellectual experience, one that prepares students to be leaders in a complex evolving world. This necessitates that, in addition to teaching the current accumulation of knowledge, business schools must be actively engaged in creating the new knowledge that will drive business in the future. New knowledge creation is the key to success in business, and to the development of tools and analytical approaches that make such success possible.

The modern business corporation is one of the most important and complex drivers of economic and social change in the world. At the highest level it demands the serious study that only a research university can provide. "How to" approaches can take one only so far. Rather it is "why to" answers and "why not" questions that will ultimately drive the decisions and choices that will shape the global economy and every country within it.

To understand how we have come to the current state of affairs, we should review the intellectual history of business education. Bennis and O'Toole offer some of this history in their *HBR* article but they seem to miss entirely its important lessons.

During the 1950's the Ford Foundation became interested in enhancing business education because they perceived it to be a bulwark against the spread of communism. They sponsored a number of studies of business education, as it then existed. In the series of papers and reports that resulted, the Foundation characterized American business

education as a collection of trade schools without any strong scientific foundation. They questioned the proliferation of narrow specialized courses with a heavy emphasis on current practice (the “best practice” mentality) and rules. The reports talked a lot about schools educating people for first jobs rather than for their whole careers. They suggested that this practice-based approach being essentially backward looking would hamper rather than help students. “Excessive vocationalism” became the catch phrase for these limitations.

Reflecting on the nature of business education in the 1950’s, Nobel laureate Herb Simon said “...[W]e perceived American business education as a wasteland of vocationalism that needed to be transformed into science-based professionalism as medicine and engineering had been transformed a generation earlier.” Between 1954 and 1966 the Ford Foundation spent \$35 million to foster business education and research at five schools: Carnegie-Mellon University, the University of Chicago, and Columbia, Harvard and Stanford Universities. Using the transformation of medicine and engineering as a model, they invested heavily in research and in doctoral programs to produce faculty for the future health of business education.

That the Ford Foundation studies are still relevant is obvious from the current discussion, because what is at issue is a proposed return to the kind of vocationalism that the field as a whole has spent the past fifty years trying to escape.

What were the benefits of the investments in business research and education? There has been a tremendous growth in MBA programs – arguably way too much growth. In 1955-56, graduate business education was virtually non-existent. Now well over 100,000 graduate business degrees are awarded annually. The top programs have attracted talented students and accomplished practitioners to the field. Doctoral programs designed to train both practitioners and faculty have grown significantly although in recent years there is a concern that too few new PhD’s are being produced. Business schools now enjoy greatly improved status as professional schools, in large measure because the intellectual value of the undertaking was recognized. While we may be concerned about the number and quality of business school graduates who graduate every year from 650 AACSB programs, the widespread adoption of the MBA degree as a qualification for future business leaders has legitimized the position the Ford Foundation and others took fifty or more years ago. In addition, business schools have generated ideas of depth and daring that have changed business and financial markets in important ways.

Consider some very recent examples. Professors Finn Kydland and Edward Prescott were awarded the 2004 Nobel Prize in Economics for work they did in the 1970’s and 1980’s at Carnegie-Mellon’s Graduate School of Industrial Administration, now called the Tepper School of Management.<sup>1</sup> Kydland and Prescott were cited for two different

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<sup>1</sup> Carnegie’s GSIA was one of the institutions that for many years embraced the vision of research-oriented business schools. Work done at GSIA in the 1960’s to the 1980’s led to no less than 6 Nobel Prizes in Economics.

kinds of path-breaking research. The first research was on what is called “the inconsistency of optimal plans.” This work established the foundation for an extensive research program on the credibility and political feasibility of economic policy, shifting the practical discussion of economic policy away from isolated policy measures towards the institutions of policy-making (the influence at work in the reforms of central banks and the design of monetary policy in many countries over the last decade). It is easily arguable that this work had a lot to do with fact that business in most advanced countries now takes place in a stable low inflation environment, a striking contrast to the world of the 1970’s.

Kydland and Prescott were also cited for having transformed our understanding of business cycles by integrating it with the theory of economic growth. Whereas earlier research had emphasized macroeconomic shocks on the demand side of the economy, Kydland and Prescott demonstrated that shocks on the supply side, for example shocks to productivity, are the most important and have far-reaching effects on the economy.

A year earlier, the Nobel Prize in Economic Science for 2003 was awarded to Robert Engle and Clive Granger. The former is a Professor of Finance at New York University, the latter a Professor of Economics at the University of California, San Diego. Engle’s work is on what is called “autoregressive conditional heteroskedasticity” and was originally published with an application to the variance of inflation in the U.K. Yet that research and the research it spawned have become indispensable tools in the analysis and management of financial risk. It solved a problem that financial firms have struggled with for decades but couldn’t solve.

These ideas first appeared in academic research journals, with titles that do not invite casual perusal, in the sort of articles that might easily be dismissed as esoteric, and not relevant to business. That initial scholarly explorations in a subject may not be easily accessible outside the field does not mean that business school researchers operate in a vacuum, unaware of the broader implications of their research. This is the common path of basic research in most sciences. The questions that incite the curiosity of the best scholars are very much driven by the real world of markets, firms, and prices. And in these cases, the research produced has had a measurable impact on that world as well.

There are many more stunning research accomplishments that have been of fundamental importance to business. A very partial list would include: agency theory and corporate governance, the capital asset pricing model, the Black-Scholes-Merton model and option pricing theory, conjoint analysis, auction theory, decision theory, game theory, pricing strategies and portfolio theory, queuing theory, risk management, and behavioral economics and finance.

That is not to say that all research leads to important new knowledge or useful ideas. But it is important to understand that the ideas with “legs” - with long –term impact - are not always obvious at the beginning. Sometimes the lag-time can be significant. But when the idea, the question, and the researcher, are in synch, the results can be transformative.

Critics argue that while research itself might be a worthy undertaking, research driven business schools are letting their students down by not giving them enough of a clinical education. This complaint shows a surprising ignorance of the structure of business education in most schools. The best schools expect students to have two or more years of meaningful work experience before admission to their MBA program, and most stress the importance of an internship in the summer between the first and second years of study. Moreover, most business schools I know of employ a number of clinical faculty, chosen for their expert knowledge of institutions and practice, who bring an additional hands-on experience into the classroom.

Nevertheless, the research mindset brings a unique and powerful focus to business education. It is *forward looking* rather than backward looking. It moves education away from teaching students a collection of *facts* to teaching them how to *think*. It moves them from a stultifying “best practice” mentality towards developing *analytical* ability. Should business school students *know* only about the financial markets that now exist, or should they *understand* why some markets exist and others don’t? Would you rather have business school grads who know what kinds of contracting structures businesses now use or students who understand that contracts exist to solve moral hazard, asymmetric information, commitment and agency problems? These are problems whose character change dramatically over time and differ dramatically across countries. I know my own answer to these questions and it comes back to the notion of preparing students for a career lasting several decades during which they will encounter realities not now foreseen.

One of my favorite business books of the past few years is ***Moneyball*** by Michael Lewis. It is the fascinating and beautifully written story of the Oakland A’s and their extremely successful general manager, Billy Beane. More importantly it is the story of how baseball has been transformed by a generation of researchers (aka baseball nerds) whose major contact with the game is through data analyzed by increasingly complex computer programming. Billy Beane’s great contribution was to recognize the value of this research. He understood that such research, while appearing abstract and arcane, had the potential to create extraordinary value for his baseball team. The story is by now the stuff of legend: under Beane’s leadership, the A’s managed to reach the playoffs for four consecutive years. Over that period their salary cost per victory was less than half of the next highest spending team and less than a quarter of teams like the New York Yankees.

Billy Beane took one of the most tradition-bound businesses in America - professional baseball - and overturned its most basic principles. He did it by using sophisticated statistical research in place of traditional "gut instinct." Billy Beane is regarded as a business genius whose reliance on research transformed the game of baseball. There are now several general managers of major league baseball teams who have never played the game but who are schooled in the research tradition of “moneyball.” And, there are players being drafted and recruited based mainly on statistical analysis.

***Moneyball*** is a good metaphor for what happens in academic research. You hire a bunch of bright well-trained people with strong technical skills and a passion about what they

study and turn them loose. With the right personnel, the right conditions, the right insights, and with a forward looking rather than a backward looking focus, exciting things can happen. And that research, applied in the right circumstances, has truly enormous potential for change.

Research brought into the classroom by working scholars develops the analytical skills and the critical thinking tools to sustain a manager through an entire career, and involving technologies, problems, and world events that we haven't yet imagined. It is precisely because we don't yet know the problems that we will be facing that practice driven education, focused on current solutions to current problems, will always fall short.

Because the institutions of business so dominate our newly global world, because the consequence of competence in business are so good, while those of incompetence are so bad, universities have a duty to study these institutions in a rigorous and dispassionate way. And because of the rigor and depth, an education in a research university is likely to be a more rewarding, enlightening, and ultimately useful experience. We focus not on handing out pat answers, but on learning to ask the right questions and giving our students a deeper understanding - an ability to think.

There is no question that much can be improved in business education. In my view, the biggest failure of business schools and business education is not that they are both informed by academic research but rather that business school education has become too homogeneous and is driven far too much by the pursuit of rankings. But that's a topic for another day.