

# REDISCOVERING THE ROLE OF BUSINESS SCHOOLS

The current crisis has highlighted the need to redefine the role of senior managers in organizations.



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**B**usiness schools are the academic setting where management knowledge is developed and researched in a systematic way. The Wharton School, set up in 1881 within the University of Pennsylvania, was the first business school founded in the United States. Several other graduate schools were created in the U.S., such as Harvard and Dartmouth, before World War I. In Europe, most of today's leading schools were established in the late 1950s and the 1960s.

The positive effects of business school programs are evident through the lives of many successful entrepreneurs and firms. The failures and mistakes of individuals educated at business schools, including those related to the current financial crisis, distract us from the positive effects that business schools have had in terms of developing excellent professionals across many industries in new and longstanding firms. Business schools have contributed to job creation and innovation, both in developed and emerging countries. The many challenges that businesses and society face in the 21<sup>st</sup> century will only heighten the demand for highly prepared managers and entrepreneurs.

Today, business schools are being criticized by some, in particular regarding the role they have had in the current financial crisis. In this article, I will briefly review some of the major challenges business schools face today. I believe that business schools need to take a more decisive role in shaping the concept and mission of the firm, and rethinking the role of senior managers in organizations.

The current financial crisis has generated two types of criticism against business schools. The first is related to factors external to business schools. The second type has to do with some internal gaps and deficits that business schools should recognize.

#### **SOME EXTERNAL FACTORS**

● **Business schools and the crisis.** Some observers who level criticism against business schools – such as lack of relevance, unethical behavior or negative impact on people and firms – have a point, though for reasons that are different from those sometimes mentioned. It is true that many MBA graduates have gone to work for Wall St. in recent years. However, even among the schools where the investment banking industry recruited heavily, the total number of MBA



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graduates in important managerial positions in those firms was relatively small and their responsibilities were probably similar to those of other professionals who had not attended business school. Moreover, there are many business school graduates working in many other industries and having a positive impact on companies and society. A different question is whether senior managers with a good education from a good school could have done more to avoid such a disaster in the banking industry.

● **Globalization.** Many Western companies have failed in their efforts to become more international and global. Some of them have committed strategic mistakes as they sought to penetrate foreign markets. Many more have taken cultural missteps when working in foreign environments. Perhaps more complex is the fact that developing and transferring talent in global companies has become a nightmare, with a feeling of frustration experienced by both companies and employees. Business schools have to do a better job teaching the processes and challenges of globalization in their programs and activities. In fact, business schools still have a long way to go in terms of taking globalization more seriously.

● **Corporate reputation.** The damage to many firms' reputations that has taken place in parallel with the recent economic crisis is a great concern. In many countries, firms used to be admired institutions that created jobs, generated investment and signaled advancement. Unfortunately, these perceptions have changed over the past years. Some companies have suffered severe blows to their reputations. Many firms are seen as pure profit maximizers and their role in society seems to be in question. This perception goes beyond the crisis of investment banks and other financial institutions. At the same time, some business leaders are seen today as the villains in these developments because they drove them or allowed them to happen. The public views them as opportunists with a short-term focus on their own benefits and privileges.

Many business schools are still stuck in traditional financial-based models of management and have been very slow in reacting to these challenges. Ethics, values and a more humanistic view of firms are dimensions that can be found in too few business schools.

### INTERNAL FACTORS

● **The mission deficit.** Organizations with a strong sense of mission can develop informal mechanisms that may lead to higher performance and increased work satisfaction. A clear mission sends a signal to the whole organization by stating why a firm exists, what values it stands for and what purpose it has.

Many business schools do not have a clear sense of mission and what they seek to do in society. It is clear that all of them have the goal of helping educate people and developing new knowledge. The question is whether this is still valid enough today and, if it is, what balance business schools should strike between the activities they want to have. In principle, there is no superior model, but it is important to understand why a business school exists and what it wants to be.

IESE's view since its foundation in 1958 is that it should aim at developing leaders who aspire to have a deep, positive

and lasting impact on colleagues, their own firms and society at large through professionalism, integrity and a spirit of service. We think that good management and leadership can change people's lives and organizations, and help improve societies. IESE's programs aim at advancing the practice of management and leadership and generating programs and new knowledge that can contribute to this process.

● **The relevance deficit.** Business schools became relevant institutions after World War II because they helped tackle a very important need: the education of professional managers and the development of a body of knowledge about the main management disciplines. In the 1970s and 1980s, many business schools became more interested in promoting the same type of research as traditional universities. The fact is that research became increasingly less relevant for the practice of management, even if it was adorned with an allegedly superior academic rigor.

The relevance deficit also became very clear in the school programs. Many top U.S. and European business schools did not offer executive programs until very recently. It was, in part, a matter of choice, but it was also attributable to the lack of interest that faculty members had towards working with senior executives on real business problems. This should not be the case: research and practice should be closely connected in business education and the classroom is a great context where ideas, hypotheses and experience should be discussed.

● **The humanistic deficit.** In many schools, faculty members see firms as organizations whose social purpose is to maximize profits for shareholders, and align executive pay to economic performance. Unfortunately, these theories have displaced some higher ideals in the business world and the force of pragmatism in getting results has become the dominant paradigm.

The claim that people are important is stronger than ever; but in practice, many decisions are taken without considering their impact on people. Today, we have management models completely void of human presence, where decision making happens in a mechanical way and incentives shape the motivations of the agents.

At the beginning of the 20<sup>th</sup> century, prominent business people had the perception that companies had a social purpose, beyond making money. As a matter of fact, the foundation of schools such as Harvard and IESE is rooted in the conviction that educating business leaders in a rigorous, ethical way is important for the good of society.

#### **TOWARDS A NEW NOTION OF THE FIRM AND BUSINESS LEADERSHIP**

● Reframing the view and role of the firm and business leaders in society is a priority for business schools. If companies and senior managers are not viewed positively in society, business schools may become irrelevant.

● **A new view of the firm.** A firm is an organization made up of people who work together with the purpose of producing and delivering goods and services for clients, and creating economic value in the process and opportunities for learning and improvement for the people involved in the firm. This framework is a starting point for redefining the role of companies in society. Companies have to create



economic value. Nevertheless, this is not the only goal that a company has, nor is it an objective that can be achieved by purely economic means, for several reasons. Companies are groups of people working together to serve clients in a very efficient way. Profits are one of the indicators of how the company is doing, but not the only one. At a more personal level, individuals would like to get things done in the best possible way. But this also means that they will have to work with others to make the things happen. In personal relationships, trust is essential. Corporate cultures and values that enhance the work environment should be a priority for top managers. Incentives that may destroy basic attitudes and values should be removed from the firm's policies, even though the cost may have a short-term impact on profits.

Companies are not only profit maximizers. Decision-making models that overemphasize this dimension, at the expense of ignoring others, may end up creating a concept of the firm that is far from the healthy view of the organiza-



tion that a dynamic society actually needs. From the 1980s through the 2000s, we witnessed the unstoppable preeminence of capital markets, investment banks, financial goals and an almost exclusive view of firms as profit makers. Many of the excesses and crises that appeared over those years were in part a natural outcome of a warped view of the firm. A positive view of the firm goes beyond an effort to avoid scandals, although it can certainly help diminish their likelihood.

#### **PEOPLE IN COMPANIES: A HUMANISTIC VIEW OF THE FIRM**

● The dominant economic and sociological paradigms in management have put forward simplified ideas of individual behavior in organizations. In both approaches, the notion of individual freedom is replaced by determinism: Given the right incentives and the right environment, people will always behave in a certain way.



## **CORPORATE CULTURES AND VALUES THAT ENHANCE THE WORK ENVIRONMENT SHOULD BE A PRIORITY FOR TOP MANAGERS.**

This assumption is at odds with one of the basic tenets of many companies and management scholars: people do matter. Some companies talk about people as their most important asset or pillar. Unfortunately, many managerial models across different disciplines – finance, marketing and organizational theory – simply take a lighthearted view of people in organizations.

The humanistic perspective of the firm has several pillars. The first is that each person is unique and can make a unique contribution. Second, each person has intrinsic dignity and basic rights to be respected in the workplace and in society. Third, each person has the freedom to make decisions and the right to act free from coercion to use this freedom against his or her own will. Fourth, each person is responsible for the use of his or her capabilities and rights, and for the external actions for which he or she is accountable to others and society at large. Fifth, each person has basic material needs, but also has aspirations and motivations that go beyond material and economic incentives. Sixth, each person has values that have to be respected as long as they do not do any harm to other people or to themselves.

In the past, many theories made the assumption that management was a neutral entity. Management is not neutral. It involves people making decisions and people receiving the influence of those decisions. And decisions are based on choices and values that each person has. The isolation of the decision-making process as a pure rational process is not a real experience. Managers should bring values to the workplace. However, there are conditions for sustainably carrying this out and avoiding clashes with people with different values: each person respects the other person as a unique human being with intrinsic dignity that deserves respect. One's values have to recognize this very simple point.



● **The role of senior managers.** A new notion of the firm has implications for the functions and role of senior business leaders. In a close parallel with the view of the firm as profit maximizer, the role of senior business leaders, starting with the CEO, board members and members of the top management team was seen as maximizing profits and market values in the short term. There is nothing intrinsically wrong about this, except that a firm's value creation is the outcome of a process. If this process is not well designed and well managed, the outcome cannot be good.

This perspective does not ignore financial results, but reflects the reality that good performance is the outcome of many decisions regarding people, clients, products, services, operations and other factors. The chief executive's role is to make sure that people work in a way that is both efficient and effective, that makes them feel proud about what they do, that generates clients who are pleased with what the firm offers them and shareholders who are pleased enough with the financial performance of their investment.

This view of business leaders has a critical implication: business leaders are professionals whose function is to serve. Service is the key attribute in any profession worthy of its name, and this is also true in the business world. A leader who does not serve her people, her clients, her shareholders, her society, is not a good professional. He or she may help the company make money in the short term but may create an unsustainable organization in the long term.

This view also reminds us that business leaders have to lead by example. Many successful organizations have



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passed the test of time, despite managerial mistakes, because their CEOs have led by example. The example consists of a mix of professionalism, fairness, virtue, courage, strength and generosity in thinking of others. This does not mean putting other people ahead of us, which may not even be human, but putting other people and their interests and ambitions at least at the same level as ours. By taking this perspective, senior managers have the potential to be an important force for change in society, and management can be a profession that serves the common good.

### SOME FINAL REFLECTIONS

● Management remains an important profession in society today. The challenges facing business schools are great, but their future very much depends upon their ability to serve managers, entrepreneurs, firms and the community.

One important step that business schools must now take is to redefine the view of the firm. In addition, they must redefine the meaning of the management profession, the role of senior managers and the unique mission of companies in society by going beyond the generation of economic value.

IESE Business School has focused on these goals ever since it was founded in 1958. The strong sense of IESE's mission and values, along with the entrepreneurial drive of its faculty, staff and alumni, has led the school to grow successfully, and has also helped to create new schools and programs around the world. IESE's fundamental values are quite unique among business schools worldwide and the current financial crisis shows us that these values are more important than ever.