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Sep 24th 2009
From *The Economist* print edition

Business schools have done too little to reform themselves in the light of the credit crunch

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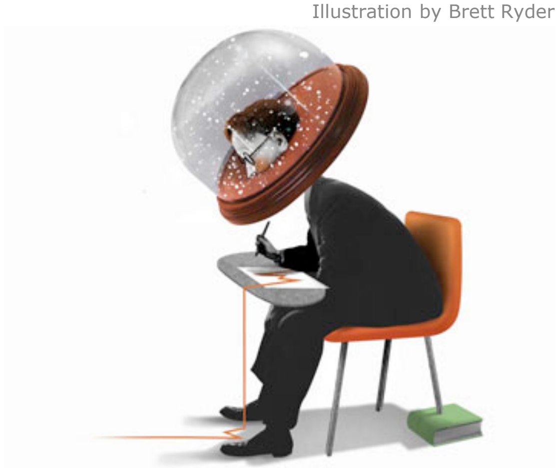

THIS has been a year of sackcloth and ashes for the world's business schools. Critics have accused them of churning out jargon-spewing economic vandals. Many professors have accepted at least some of the blame for the global catastrophe. Deans have drawn up blueprints for reform.

The result? Precious little. Business schools have introduced a few new courses. Students at Harvard Business School (HBS) have introduced a voluntary pledge "to serve the greater good" among other worthy goals, which about half of this year's graduates embraced. But for the most part it is business schooling as usual. The giants of management education have laboured mightily to bring forth a molehill.

That is too bad. You do not have to accept the idea that the business schools were "agents of the apocalypse" to believe that they need to change their ways, at least a little, in the light of recent events. Most of the people at the heart of the crisis—from Dick Fuld at Lehman Brothers to John Thain at Merrill Lynch to Andy Hornby at HBOS—had MBAs after their name (Mr

Hornby graduated top of his class at HBS). In recent years about 40% of the graduates of America's best business schools ended up on Wall Street, where they assiduously applied the techniques that they had spent a small fortune learning. You cannot both claim that your mission is "to educate leaders who make a difference in the world", as HBS does, and then wash your hands of your alumni when the difference they make is malign.

The real question is not whether business schools need to change, but how. One of the most common stances—often heard outside and sometimes within the schools themselves—is that management education needs to start again from scratch. On this view, these institutions are little more than con-tricks at the moment, built on the illusion that you can turn management into a science and dedicated to the unedifying goal of teaching greedy people how to satisfy their appetites.

That is not true. A study by two economists, Nick Bloom of Stanford and John Van Reenen of the London School of Economics, concluded that companies that use the most widely accepted management techniques, of the sort that are taught in business schools, outperform their peers in all the measures that matter, such as productivity, sales growth and return on capital. Many companies in the developing world, not least China, are desperate to hire more MBAs in order to improve their traditionally slapdash approach to management.

A second popular argument is that business schools need to put more emphasis on business ethics and corporate social responsibility (CSR). There is a great deal of talk about embracing "principles of responsible management", such as "sustainability" and "inclusiveness".

This makes some sense. A 2006 study of cheating among graduate students found that 56% of business students had cheated, compared with 47% in other disciplines. The authors attributed this to "perceived peer behaviour". Presumably more talk of ethics might change those perceptions. But it would be a mistake to expect too much from CSR. Both business schools and businesses have been talking about it for years without turning business people into angels (one of the loudest advocates was Ken Lay, the chairman of Enron). Moreover, many admirers of CSR confuse the sort of creative destruction that makes us all richer, in the long run, with corporate skulduggery.

So what should business schools do to improve their performance? More history classes would help. Would-be business titans need to learn that economic history is punctuated with crises and disasters, that booms inevitably give way to busts, and that the business cycle, having survived many predictions of extinction, continues to prey on the modern economy. The 2008 debacle might have come as less of a surprise if all those MBAs had been taught that there have been at least 124 bank-centred crises around the world since 1970, most of which were preceded by booms in house prices and stockmarkets, large capital inflows and rising public debt.

History courses aside, business schools need to change their tone more than their syllabuses. In particular, they should foster the twin virtues of scepticism and cynicism. Graduates in recent years, for example, seem to have accepted far too readily the notion that clever financial engineering could somehow abolish risk and uncertainty, when it probably made things worse. It is worth noting that such scepticism is second nature to the giants of financial economics, as opposed to the more junior propellerheads. Andrew Lo, of MIT's Sloan School of Management, was fond of pointing out that in the physical sciences three laws can explain 99% of behaviour, whereas in finance 99 laws can explain at best 3% of behaviour.

Boosters beware

The original sin of business schools is boosterism. Professors are always inclined to puff the businesses that provide them, at the very least, with their raw materials and, if they are lucky, with lucrative consultancy work. HBS has produced fawning studies of almost every recent corporate villain from Enron (which was stuffed full of HBS alumni) to the Royal Bank of Scotland. A taste for cheerleading has been reinforced by the rise of a multi-million-dollar management-theory industry. Professors with dollar signs in their eyes are always announcing the birth of the latest revolutionary management technique or the discovery of the hottest new "supercorp".

Business schools need to make more room for people who are willing to bite the hands that feed them: to prick business bubbles, expose management fads and generally rough up the most feted managers. Kings once employed jesters to bring them down to earth. It’s time for business schools to do likewise.

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