

The Broken M.B.A.

THE AMERICAN BUSINESS SCHOOL is broken. Intended to serve society by serving business, it no longer meets the needs of either.

The first collegiate business schools were formed in response to a vast change in the nation's economy in the late 19th and early 20th centuries. Large, complex corporations were replacing smaller, owner-managed companies as the dominant economic players. The new world of large-scale organizations required legions of professional managers, and M.B.A. programs arose to train such people.

In the decades after World War II, those programs grew and proliferated. The period between the war and about 1980 was the high age of bureaucratic capitalism—an economic system built on the triumvirate of big business, big government, and big labor. For a country that had been racked by the Depression, World War II, and the cold war, the seeming stability of those massive institutions was reassuring.

A great hope of the time was that economic growth could be planned and managed predictably. Business schools played into the system by developing and teaching ever-more-complex quantitative methods, with the idea that “if you can't measure it, you can't manage it.”

Bureaucratic capitalism died in the early 1980s, killed by stagflation—unexplained slow growth accompanied by high inflation. In its place grew a new economic form, entrepreneurial capitalism. That new form is based on a mix of institutions: universities, to generate ideas; start-up companies, to develop those ideas; and large businesses and government, both of which now interact with the first two. Instead of striving for predictability, the new economy is dynamic, marked by the continuous entry and exit of businesses. Happily, entrepreneurial capitalism is more productive, employs more people, and produces higher rates of innovation.

Unfortunately, most American business schools missed the change. The schools' past success continues, to a large degree, through force of habit: Students and recruiters, both conditioned to think of the M.B.A. as the coin of the realm, continue coming to business schools, with their magnificent buildings, large endowments, and celebrity faculty members.

What is taught there, however, largely ignores the new economic forces. Although most major schools now have formal programs in entrepreneurship, the programs typically exist in isolation. Their precepts have had little impact on the core curriculum. It is hard to find serious research on entrepreneurial processes, and not much attention is paid to the importance of technology in entrepreneurial growth—even in large companies.

There are, to be sure, some encouraging signs. For example, the Tepper School of Business at Carnegie Mellon University offers M.B.A. tracks in biotechnology and in management of innovation and product development, plus dual-degree programs like the one that combines the M.B.A. with a master's in software engineering. Tepper's dean, Kenneth B. Dunn, told *The New York Times*, “You can't manage a group of [scientists and engineers] who think you don't know anything about their field.” And Stanford University's business school is collaborating with other schools such as engineering and medicine to foster both entrepreneurship and the skills of creative synthesis necessary for entrepreneurial capitalism.

Many business schools, however, remain creatures of the bureaucratic age. And many have pursued paths that are ineffective, irrelevant, or even counterproductive to preparing students for the new economy. The recent proliferation of courses in ethics is one example of ineffectiveness. Presumably the goal is to prevent

future Enron-like scandals, but how likely is it that human behavior can be changed for the better by tacking on a course on ethics?

Another misguided trend is that of offering courses in the nebulous area of social responsibility. The implicit message of those courses is often that business goals should be subordinate to political goals. Business serves society by creating wealth—that is its true social responsibility. Business schools do their students and society a disservice by teaching that corporations should pledge primary allegiance to political ends, which could harm their ability to create the wealth upon which civil society depends.

TO MAKE business education relevant, we need to take the following steps.

- *The curriculum must pay greater attention to business theory.* Today, more than ever, students need to be able to grasp the big picture: the conceptual framework that shows how commerce contributes to the progress of modern democratic society. Courses in business theory should combine the insights of microeconomics with the history of business and comparative studies of business around the world.

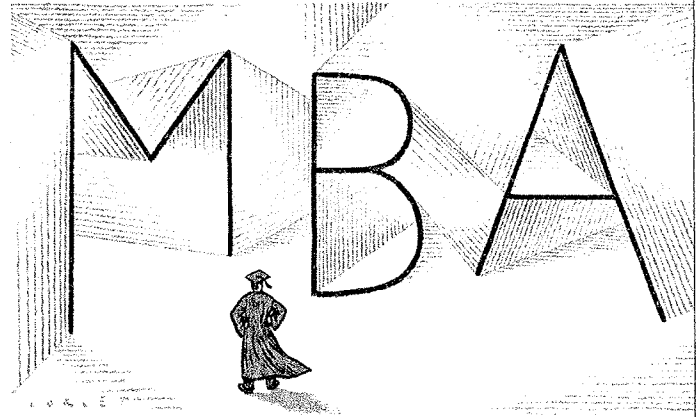
That could help young people to see a career in business as an honorable “calling” rather than merely as a means of personal gain. It would also help tighten the curriculum's focus on where the economy is headed.

- *Emphasize the role that technology plays as a driver of the economy.* Most high-impact companies throughout history, from the early railroads and steel companies through Intel and Cisco Systems, have been built by entrepreneurial businesspeople able to recognize and apply advances in all fields of engineering—and by engineers able to apply their work in business. That is what business schools must teach. In fact, great advances may come from finding new ways to teach business and engineering together.

- *Teach risk taking more thoroughly and rigorously.* It is impossible to innovate, and thereby increase social welfare, without taking risks. Yet many companies do not handle risks well and either build risk-averse bureaucracies or take foolish chances. And many business schools give the topic only superficial treatment, in scattered courses. The study of assessing and managing risk must be fully developed and brought to the fore.

- *Professors should conduct more empirical research that leads to solid, practical business theory.* Much business-school research is notoriously weak and seldom applied in actual management. And too many business books read like novels promising success rather than being based in real research. We especially need a more rigorous study of the factors that lead new companies to succeed or fail, to formulate a good theory of the entrepreneurial business.

- *Courses should present general principles rather than individual cases.* I have visited business schools where an introductory 13-week course in entrepreneurship consisted of 26 successful alumni entrepreneurs telling their life sto-



CHRISTOPHE VORLET FOR THE CHRONICLE

ries. Those accounts are often inspirational, but the implicit message to students is that there are no common features of success, no typical mistakes to be avoided, no predictable moments when a new organization must make critical transitions.

In schools of law and medicine, the case method has a proper role. But in business schools, professors need to be more careful to articulate the principles that cases illustrate.

- *Business schools should cut the fluff out of the curriculum and refocus on the core.* To be prepared for jobs in an entrepreneurial economy, students need to understand the drivers of economic change, the role entrepreneurs play, and why government policy is so critical to nearly all aspects of business. Properly covering those subjects—as well as risk analysis, finance, accounting, and courses from elective fields such as personnel or marketing—leaves little time for the less-relevant courses that have crept into the curriculum.

Business training must be considered an investment, not a consumer good. Yet it's not clear that students at most American business schools receive a positive return on their tuition, time, and forgone salaries. In an article published in *Academy of Management Learning & Education* in September 2002, Jeffrey Pfeffer and Christina T. Fong challenged the long-held assumption that those who get an M.B.A. have more-successful business careers than those without the degree. In combing through 40 years' worth of data, the authors found virtually no proof of that. In fact, Pfeffer, Fong, and others have cited evidence that, in many cases, business education does not prepare students to manage better—even in the big companies toward which the schools are currently oriented.

To avoid becoming obsolete in the entrepreneurial economy, business schools would be wise to practice the most basic principles of business: Pay attention to change, recognize opportunity, and focus on the future.

Carl J. Schramm is president and chief executive officer of the Ewing Marion Kauffman Foundation. His next book, The Entrepreneurial Imperative: How America's Economic Miracle Will Reshape the World (and Change Your Life), will be published by HarperCollins in September.

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